



JPRS Report

China

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China

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General

East Asian Security Issues Analyzed

94CM0374A Beijing GUOJI WENTI YANJIU
[INTERNATIONAL STUDIES] in Chinese No 3,
13 Jul 94 pp 19-22

[Article by Yang Chengxu (2799 2052 4872): "Analysis of East Asian Security Issues"]

[FBIS Translated Text] To be good-neighborly, friendly, and cooperative; to promote economic growth, develop friendship, and preserve peace; to be understanding and willing to compromise, and to discuss and resolve the historical problems and the many realistic issues today—these are the main trends in today's security situation in the East Asian region (This article follows conventional interpretation whereby the geographic domain of East Asia shall include all Asian countries and regions participating in the Asian Pacific Economic Cooperation [APEC]). They are also the main characteristics distinguishing the region's security situation from that of other regions.

1. East Asia's Security Situation Since the end of the Cold War, the whole international situation has eased, but sharp and abrupt disturbances and warfare have erupted in some regions, especially some central and east European regions.

In contrast, the dangers of war between nations in East Asia where three regional wars of far-reaching repercussions—namely, the Korean War, the Vietnam War, and the war in Cambodia—had once been fought in the Cold War era have greatly diminished, and the political situation has been relatively stable; the region has caught worldwide attention because of its sustained and relatively high rate of economic growth.

1. There is little danger that new hot points of war will develop between the East Asian nations.

The regional hot points formed during the Cold War have basically been settled. Although the conflicts within Cambodia have not ceased, they have basically been reduced to low-intensity, small-scale internal struggles of limited impact. In the wake of the collapse of the Soviet Union and the readjustment of the United States' and Russia's military strategies, the level of military contention in the East Asian region has fallen off sharply, further reducing the danger of large-scale war in the area. The reinforcement and development of peace in the East Asian region appears to be an irreversible trend.

2. There are still territorial disputes, racial problems, and economic conflicts in East Asia, but the end of the Cold War generally will not bring them to the surface nor exacerbate the problems.

These problems no doubt are unstable factors in East Asia and must be dealt with carefully and properly by the pertinent parties in accordance with accepted principles of international diplomacy. But unlike Central and East Europe, post-Cold-War East Asia will not turn from a

region of relative stability into a region of sustained warfare. The two regions' historical conditions are completely different.

During the Cold War era, the potential racial strife, religious conflicts, and territorial disputes were temporarily overshadowed by the intense contention and confrontation between the United States and the Soviet Union. At the end of the Cold War and with the disintegration of the bipolar setup, Central and East Europe's inherent conflicts have been brought to the surface and out into the open, and they have led to sustained and incessant armed confrontations. In East Asia, the three large-scale armed conflicts since World War II basically were caused by the deterioration of political relations among nations, with the Cold War as the backdrop. In all cases, political conflicts (often accompanied by ideological differences) had preceded military confrontation. Even for the military confrontation that involved territorial disputes, after the political relations between the two sides improved, the territorial disputes were soon put aside or resolved through negotiations. Thus, in East Asia, it was not the Cold War climate that temporarily suppressed the territorial disputes and racial conflicts; to the contrary, the Cold War did not prevent the reasonable resolution of several territorial disputes left by history in East Asia. The spirit of mutual understanding and compromise displayed by China and many of its neighboring nations was proof. Some international critics see the territorial disputes in the South China Sea as one of the major potential threats to the security of East Asia, but China is not as pessimistic.

3. There may be some kind of suspicion and guarded mentality between some East Asian nations, but no nation is viewed as a major or real security threat.

There are some bases for suspicion among the nations in the region. For example, many nations are dissatisfied with the way some large countries are treating others unfairly and forcing their own sense of value on others and with the way they seek revenge and sanction others unilaterally in their economic dealings. However, some suspicions are the result of misunderstanding and deliberate distortion. The "theory of China filling the vacuum" and the "theory of China as a threat" in the last year or two are good examples. Some countries are far more powerful than China, but they are talking about the "theory of China as a threat." It makes one wonder if these nations truly believe in their hearts that only if China lags far behind the developed nations will it cease to be a threat to the others. The truth is, there are more objective estimates of China's real strength and intention out there. But no matter what, suspicion and wariness are objective realities. It demonstrates that to inspire trust, the nations must still work hard together. But overall this will not affect the security and stability of the Asian Pacific region. The situation in the Korean peninsula recently has become the greatest security issue in Northeast Asia. The United States has been exaggerating things by saying that there is real danger of war. What the United States is really worried about is not that. Nevertheless, the tense situation in the Korean Peninsula is a very complicated issue, and although things

may be near the brink at times, at the very core, it is a bigger political rather than military issue.

4. Relations among nations in the East Asian region are generally improving and strengthening.

First, relations among the Asian countries in the region have been improving. In recent years, the bilateral political relations between nations in Northeast Asia and Southeast Asia generally have been friendly or have clearly improved. Sino-Japanese relations have entered a new developmental stage. Relations between China and Vietnam, ASEAN and Vietnam, and Japan and Korea, once strained, have improved to various degrees. In resolving historical problems and shaking off the shadow of the Cold War, the East Asian nations seem to be ahead of the United States. Second, with US-Soviet contention virtually over, a new balance of power is developing among the great powers and among the power centers in this region. Their relationship is in a state of relative stability. The relationship among China, the United States, and Japan, which plays a pivotal role in stabilizing the region, is completely different from the triangular relationship among China, the United States, and the Soviet Union during the Cold War era. The improvement in each pair of bilateral relations is promoting the bilateral relations of the other two pairs rather than pulling them apart. Because of its own domestic crises and because more attention is paid to Europe and central and western Asia, Russia is not playing much of a role in East Asia for the time being. But Russia is striving to strengthen its cooperation with China, Japan, and the ASEAN countries. Since the late 1980's, the ASEAN countries' international status has been rapidly rising; they have been playing a bigger role, and their influence in political, security, and economic matters has been expanding. They advocate the creation of a framework of Asian Pacific security mechanisms centering around the ASEAN ministerial meetings to counterbalance the relations among the United States, Japan, China and other great powers and to prevent any superpower from dominating the entire region and to protect and enhance their own economic development and safety. The improvement of East Asia's security situation is an inseparable part of the greater backdrop of the end of the Cold War which seriously shook up international relations and also disrupted the domestic orders of the original Eastern and Western nations.

1. The emphasis put on economic security far exceeds that put on military security. Economic security has become the primary factor determining international relations and national strategies in the post-Cold-War era. Today, internally, the priority of all nations is to invigorate their own economies, and in their foreign relations, their first priority is to safeguard their own economic security and economic interests. Most Asian Pacific nations had put economic development their primary strategic mission even before the end of the Cold War. The end of the Cold War only gave even greater momentum to the rapid economic development of the Asian Pacific region, especially the East Asian region. East Asia has vast trade prospects; its investment momentum is strong. Many countries are focusing their attention on this region,

believing that the area has the most economic development vitality and provides the best investment and trade opportunities.

2. Most East Asian nations are politically fairly stable, and the "East Asia Model" is displaying its own vitality. At the end of the Cold War, domestic orders in Western Europe and North America have been disrupted to an extent never anticipated by their national leaders. But in many East Asian countries, there has emerged a benign cycle whereby political stability ensures economic development and economic growth in turn promotes political stability. If we make a vertical comparison, Japan's internal order may have lost the kind of relative stability of the Cold War era, but if we make a lateral comparison, it is still far more stable than many Western nations. The characteristics of the "East Asia Model" has attracted more worldwide attention than before. Professor Huntington of the United States is even calling it a "threat" to the Western culture.

3. The end of the Cold War has given huge impetus to and has strengthened the creation of economic regions and economic blocs around the world, and East Asia's economic cooperation has clearly strengthened. The formation, deepening, and expansion of the European Union and the creation of NAFTA and the prospects of its southern expansion are important signs of the formation of worldwide economic regions and economic blocs. In a certain sense, we can say that the Asian Pacific region is lagging behind in this respect, because there is little hope of creating economic blocs in the region. But because the economic systems, political systems, extents of social development, religious and cultural traditions, and racial makeup of the Asian Pacific, including the East Asian nations, are very different, it is very difficult to measure the progress in East Asia's economic cooperation by the creation of economic blocs and mechanisms. In fact, much progress has been made. Various types of economic cooperation organizations, regional and sub-regional economic zones, and economic zones created by neighboring countries and regions have been developing rapidly. Nations within the region are much more dependent on one another today than before. In recent years, trade among the East Asian nations themselves has been growing faster than trade with outsiders. In 1993, ASEAN began implementing its plan to build an "ASEAN Free Trade Zone," and the original time frame for reaching its goal has been shortened from 15 to 10 years, and it is possible that the plan may gradually be expanded to include the three Indonesian nations. Malaysia's suggestion of forming a "East Asia Economic Core Conference" has been incorporated into the ASEAN and APEC framework in 1993. It may play a relatively independent role in the future. The strengthening of economic cooperation within East Asia has reinforced and promoted friendly cooperation among the East Asian nations politically and in other respects.

4. Since the end of the Cold War, the trend toward a multipolar world-setup has gained impetus, and the major countries and blocs in the East Asian region have clearly gained international influence and are playing a bigger role. The trend toward a multipolar world-setup had already begun in East Asia several years before the end of the Cold

War, but it has gained greater momentum since the end of the Cold War. East Asia has been gaining in stature and influence in the world. Striving for regional stability and development is the common goal of all nations. They are generally opting for dialogue and cooperation when dealing with the region's internal conflicts and problems. For example, in formulating measures to boost mutual trust and promote security mechanisms in the Asian Pacific, the nations have gradually reached a consensus: They should take into consideration actual, local conditions and engage in dialogues of different forms through different channels and at different levels, and depending on the different problems between different nations or sub-regions, they should first exchange views with the concerned parties and try to find a solution. The attitude of the East Asian nations, or we can call it the "East Asian Model" of settling international disputes, has gained widespread international support.

II. China and East Asia's Security

As discussed earlier, East Asia's overall security situation is less tense than that in many other regions. Some U.S., Japanese, Russian, and ASEAN scholars are not optimistic about this. China's current domestic situation is good, and conditions along its perimeters have never been better; its sense of security is enhanced. Foreign scholars' views tend to be too pessimistic. This may be due partly to the natural phenomenon of different academic points of view, but it is also attributable to the theory of "China as a threat" as mentioned earlier. Here, we want to discuss some of China's policies related to the East Asian region's security issues.

China believes that promoting political stability and economic development at home is not only the primary guarantee of its own security but is also a contribution to Asia's and even the world's stability and development. Conversely, the latter is a necessary external condition for the implementation of China's basic guiding principle which centers around economic construction. It is exactly for this reason that China has made promoting world peace and development one of the basic goals of its foreign policy.

As far as China is concerned, in the next several decades, it must concentrate on solving its own poverty problems. Thus it must work hard to secure a peaceful international environment and continuously stabilize and develop friendly and cooperative relations with its neighboring countries. China has always advocated adopting a peaceful approach to deal with the differences and conflicts among nations and does not want to see new hot points developing within its own region. In order to unify the country in a steady manner, it has come up with the idea of "one country, two systems." China does not occupy an inch of foreign land and does not have a single soldier stationed abroad. In resolving the boundary problems with other countries, it has always made mutual understanding and compromise its basis. Today, one after another the disputes are being settled. On the issue of the South China Sea islands, China has suggested "putting aside the disagreements to develop the islands together." China opposes

nuclear proliferation and wants to resolving the Korean peninsula's nuclear issue properly. China firmly upholds the Paris Accord and refuses to support one side against the other side and wants to avoid starting another civil war in Cambodia, so that there can be peace in Cambodia sooner. In the last 10 years or so, China's economy indeed has been growing very rapidly, but China is still a developing nation. It is premature to say that China's economy has already caught up with Japan's and will catch up with the United States' in the 21st century. The ideas that China is filling the vacuum or is a threat are in fact either misunderstanding or deliberate distortion of China's intention. Take military spending for instance. The numbers alone may show some increase in spending, but taking inflation into account, in fact there has been no increase, and in absolute terms, China's military budget is less than half of Taiwan's and is nowhere near Japan's and the United States'. China does not deny that it wants to strengthen its defense capability. Looking back at the last century or so, China has repeatedly been attacked by countries far and near. The Chinese people will never give in to the demand that China should forever be kept in a backward state on defense matters. Another viewpoint is that the reason other nations feel threatened by China is because China is a huge country. No doubt, China is vast, but it is still a developing country, and it is concentrating its efforts on keeping its 1.2 billion people fed and warm. It also has 80 million people living below the poverty-line, and nearly a 100 million of its people are still illiterate. It requires great efforts from the nation's people to resolve these problems, and it will still need several more generations' efforts to solve China's developmental problems and to turn it into a moderately-developed nation.

China's leaders have repeatedly announced to the world that China will never want to be a superpower, and even if it becomes strong in the future, it still will not be a superpower, and if ever China proclaims itself a superpower, the rest of the world can join together to oppose it. This has been the solemn guarantee and pledge of several generations of Chinese leaders. Furthermore, great powers that practice hegemonism always suffer ill consequences; they not only harm others but also hurt themselves. This has been proven by historical facts, by today's reality, and will be proven again in the future.

Out of consideration for their long-term interests, properly handling their interrelations is vital to the East Asian nations. Nations should not be forced to make a choice between submission and contention. That kind of thinking and action belonged to the Cold War era; it no longer suits the modern trend. We not only oppose letting any nation dominate Asian Pacific affairs but also oppose efforts to isolate any Asian Pacific nation. The key lies in forging a relationship of mutual respect, noninterference in each other's internal affairs, and friendliness based on the five principles of peaceful coexistence and the United Nations' charter.

For any nation, economic development is the foundation of political stability. For any region, and even for the world, economic security is also the foundation of comprehensive security. Thus, promoting East Asia's security

should be closely tied to the strengthening of economic cooperation among nations within the region to help everybody develop. Today, the issue of East Asia's economic security has attracted more and more attention. There is no denying that many developing nations in this region have taken the lead in the world in the rate of economic growth. But these countries' economies are mainly export-oriented, and to different extents, they are dependent on the world market, on outside capital, and foreign technologies. These countries' infrastructures are weak and urgently need further improvements. Although today they still enjoy the advantage of cheap labor, they are facing the challenges of trade protectionism which may intensify, technological progress, new and ever-changing products, and environmental pollution problems. When discussing East Asia's security problems, we must not overlook the fact that economic problems may adversely affect the region's peace and stability. China fully realizes the existing problems and is working hard to overcome the weaknesses in its own national economy and will continue to do its part to promote regional economic cooperation.

United States

Clinton 'Enlargement Strategy' Viewed

94CM0408A Beijing ZHONGGUO JUNSHI KEXUE [CHINA MILITARY SCIENCE] in Chinese No 2, 20 May 94 pp 131-135

[Article by Cai Zuming (5591 4371 6900), Director of a research department in the Academy of Military Science: "Critique of the Clinton Administration's 'Enlargement Strategy'"]

[FBIS Translated Excerpt] On 21 September 1993, the U.S. President's national security affairs assistant, Anthony Lake, gave a speech at the Johns Hopkins Senior International Problems Institute titled, "From Containment To Enlargement." In this speech, he set forth a new concept, namely, "Enlargement Strategy." Subsequently, U.S. President Bill Clinton, Secretary of State Warren Christopher, and the U.S. ambassador to the United Nations, Madeleine Albright, made speeches and published a series of articles on this subject. As a new strategy proposed by the United States Government, "enlargement strategy" provoked a very great reaction not only in the United States but throughout the world. Just what is "enlargement strategy?" What is the connection between "enlargement strategy" and the "containment strategy" and "super containment strategy" that the United States formerly promoted? What is the background to the U.S. promotion of the "enlargement strategy?" These are all questions that many countries, including China, are examining and considering.

1. What Does "Enlargement Strategy" Mean?

According to Lake's explanation, "enlargement strategy" is a strategy in which the goal is "to enlarge the large free family of market and democratic system countries." He said, "Throughout the cold war period, we contained the global threat that the market and democratic system faced. Now we should seek to enlarge the democratic

system, particularly in places of particular significance for us." The explanation that Clinton gave of the connotation of "enlargement strategy" is: "In a new age in which dangers and opportunities co-exist, our first goal is to enlarge and strengthen the democratic family of nations in the world that are founded on markets. During the Cold War period, we strove to contain the threat to the free system. Now we will strive to enlarge the circle of nations that live under this free system." Clearly, "enlargement strategy" is a global strategy for America's "democratization of the whole world," and then world domination.

1. Strengthening the "Large Family of Market and Democratic Nations"

Lake believes that the first requirement in America's promotion of an "enlargement strategy" is "to strengthen the large family made up primarily of market and democratic nations, because they are the foundation on which enlargement rests." Therefore, Lake proposes the two measures of increasing America's own strength and coordinating the internal relations of its allies. He believes that ensuring the leading position of the United States, and increasing America's own strength hold far-reaching significance for the attractiveness of democracy and markets throughout the world. Therefore, they are the key to the success of the "enlargement strategy." In order to accelerate America's "domestic economic revival," the Clinton administration specially set up an "export promotion office," to help U.S. corporations seize export opportunities and compete with foreign corporations. On the subject of coordinating relations among its allies, Clinton said that "U.S. relations with Europe, Canada, and Japan are pretty good today," but because of the "disappearance of the common goals of the cold war period," and the "intense economic competition," America's traditional alliance relationships are "seriously threatened." For this reason, the Clinton administration called for greater multilateral cooperation and joint efforts among the Western allies. It wants to "coordinate macroeconomic policies, renew the international economic system," "conduct fair exchange" based on "the open trade principle," and use the establishment of a regular competition mechanism to avoid "weakening of the Western capability to take decisive action on numerous problems of common concern" because of bitter wrangling.

2. Helping Some Nations Consolidate "Democratic Reform and Market Reform" Achievements

Lake said that America's goal in this regard is "to try to help those nations that have an affect on America's strategic interests, such as major economic powers, nations having an important geographic location, nuclear powers, and nations from which refuges might surge into the United States, or other friendly and allied nations." Most important of these are "new democratic nations" in the former Soviet Union and Eastern Europe. To one degree or another, these nations are currently facing all sorts of difficulties. Their "democracy and market economies are, at best, only nascent, and they are frequently very fragile." If we can help Russia and other newly independent nations consolidate democratic reform and market reform, we can

turn what was formerly a threat into a valuable diplomatic and economic partnership. Christopher declared that the United States is currently facing a "challenge that will brook no delay, 'namely to provide 'political support and economic assistance' to central and eastern European countries, and to the former Soviet Union" to help them "safely complete their democratic transition." This is of "crucial importance" to the joint security of the West.

3. Ability to Weaken "Nations Outside the Democracy and Market Circle."

Lake stressed that "ability to weaken to the maximum extent nations outside the democracy and market circle" is an important part of America's promotion of an "enlargement strategy." Lake said that "nations outside the circle" means nations that are ruled by unelected dictators, by divine right, by those who have usurped power, or by central planners." He believes that the leaders of these nations are bound to be strongly opposed to democratic and market progress. When they hold supreme power, as in Iran and Iraq, they may engage in terrorist activities and actions in violation of the law that threaten the United States and other democratic nations, or pose a threat to their neighbors. In this case, the United States should use "military means" and "nonmilitary means" in common. Lake declared, "When these nation's actions directly threaten the American people, the United States' armed forces, or U.S. interests, the United States obviously must be unilaterally prepared to strike back as we did when Iraq attempted to assassinate former President Bush." Regarding the use of "nonmilitary means," Lake said that when political upheaval occurs in any country, "it is necessary and desirable to state a position openly" to guide local "democratic" trends. In order to spur "democratic" progress in other countries, Lake called for the United States "not only to want to enlarge the circle of government officials in such a country, but also to enlarge the circle of civilian and nongovernment organizations" in order to widen the spread of "democracy." In addition, the United States also intends to manipulate economic levers regularly, using economic assistance and economic sanctions to cajole other countries to change their internal policies.

It should be noted here that, in Lake's eyes, China is clearly among the ranks of "nations outside the circle." However, inasmuch as China is a large nation of decisive importance in the world today, the United States does not dare attack it brazenly such as Iran and Iraq. Instead, it resorts to "both dialogue and opposition." Lake said: "China's continued conduct of an economic liberalization policy, and its respect for both the human rights of its own people and rules regarding weapons sales are in keeping with the interests of both China and the United States. It is for this reason that the United States conditionally extended the Most Favored Nation treatment for trade with China, but issued sanctions against China's missile exports."

4. Pursuit of "Humanitarian" Goals

Lake believes that "the United States must pursue humanitarian goals. This plays an important supporting role in

the United States' effort to expand democracy and markets." This so-called "humanitarian" action consists mostly of "economic and military assistance, disaster relief, support for the development of education, and health care projects." However, Lake noted that in the attainment of "humanitarian" goals, military methods are also indispensable. He said, "in places where we can play a decisive role such as Somalia and northern Iraq, we should not be opposed to military action to attain humanitarian goals, because such action differs from large scale warfare to seize territory. Naturally, such actions cannot be entirely without risk. Nevertheless, for the sake of U.S. goals, U.S. military leaders are willing to take these reasonable risks." This shows that in the process of pursuing an "enlargement strategy," the United States will raise the "humanitarianism" banner in carrying out aggression and expansion against the vast Third World.

2. Undeviating Major American Grand Strategy [passage omitted]

3. The Third Stage—"Enlargement Strategy"

The enormous changes in the USSR and Eastern Europe leading to the dismantling of the bipolar system have brought the world to the post-cold war era. Lake believes that the international situation in this new era has four characteristics: 1) Democracy and the market economy are more widely accepted than at any time in the past. 2) The United States has become the "decisive power" in the world. It "possesses the world's most powerful military forces, the largest economy, and the most vibrant society." 3) The number of local wars is on the increase, and the background, reasons, and course of these wars is extremely complex. 4) "The global pulse has clearly quickened." In order to meet the needs of the new situation, the Clinton administration wants to use the "achievements" won in the "super containment strategy" as a basis for proposing a new major strategy. Thus, the "enlargement strategy" was born to meet the need. Espousal of the "enlargement strategy" marks the departure of America's grand strategy from "containment," and from encirclement of "the expansion of communist power" toward promotion throughout the world of U.S. political and economic models and values. Compared with the "containment strategy" and the "super containment strategy," the "encirclement strategy" is extremely ambitious. If one says that the "containment strategy" and the "super containment strategy" stood for allowing all kinds of social systems to co-exist while safeguarding America's "leading position" in the world, then the "enlargement strategy" not only seeks to safeguard America's position as leader, but also seeks to use the U.S. model to transform and bring about the evolution of the social system of other countries in order to realize "global integration." Consequently, the "enlargement strategy" is more aggressive and dangerous. It is an expression in concentrated form of the rise of American hegemonism and power politics under new circumstances.

3. Hard Going in Promoting the "Enlargement Strategy"

The Clinton administration faces numerous difficulties and problems in promoting the "enlargement strategy." As

is generally known, the world's various pre-existing basic contradictions were not completely resolved with the advent of the "post-cold war" period. With the dismantling of the bipolar system, numerous new contradictions have appeared. Various forces have split up and recombined. The situation is unsettled. This new situation places numerous obstacles in the way of America's pursuit of an "enlargement strategy." Its prospects, one might say, are beset with difficulties; the going is hard; and the future cannot be divined.

1. National Strength Falls Short of Ambitions

The United States terms itself "the only contemporary superpower," and it is pledged to play the role of "world leader." Actually, more than 40 years of the cold war have very greatly injured the American economy. Its economic structure is clearly skewed; growth is slow; domestic receipts and expenditures are out of balance, and the foreign trade deficit continues to rise. These afflictions have caused a tremendous decline in America's economic strength. Statistics show that for a period immediately following the war, America's GNP accounted for approximately 50 percent of total world GNP. Today it accounts for only 25 percent. The event that shows most clearly that America's strength is not what it once was is none other than United States showing in the Gulf war. Formerly, when the United States waged war, it usually put up the money and the weapons, but other countries put up the manpower, or else the United States put up somewhat less manpower. In the Gulf war, however, Japan and other countries put up a total of \$43.1 billion, \$37.8 billion of it in cash and \$5.3 billion in materiel. The relative decline in America's strength shows that it will no longer be easy for the United States to maintain its "leadership position" in the future. Vain attempts to dominate the world will be even more difficult.

2. Numerous Conflicts Among Allies

The many years of the cold war exacted a heavy price from the United States. Japan and the United States loom large economically. In comparison, the United States is at a disadvantage in world economic competition. In order to reverse this declining trend, the United States Government has highly touted "fair trade" in recent years, and wielded the "economic sanctions" club to pressure Japan and the EC countries to open their markets further to the United States. This has produced a series of quarrels among the United States, Japan, and Europe, which have led to a widening of the political rift and a loosening of strategic ties between the United States and its allies. In the future, political and economic conflicts between the United States and Europe will increase. This is because the strategic goals of the United States and Europe are at odds. The U.S. plan is to build a "monopolar world" that it leads, but the European nations want to become one pole in a multipolar world in which they sit as an equal of the United States. The tug of war that has developed between the two on this point will last for a long time. At the same time, the strategic emphasis of both the United States and Western Europe is on Europe, but the future conception of Europe that both parties have diverges greatly. The United

States seeks to build a Europe centering around NATO in which the political, economic, and security interests of both eastern and Western Europe are integrated, with the United States playing the leading role. However, Western Europe hopes to create a Europe that has the EC as its nucleus. The conflict between the United States and Europe over who will dominate European affairs will go on for a long time.

As Japan's overall national strength increases and its international standing rises, Japan's need to seek a status equal to that of the United States is becoming increasingly strong. Even though the United States pays lip service to the idea of building a "global equal partnership relationship" with Japan, actually United States still employs a "master-apprentice relationship" in its dealings with Japan. Japan has expressed strong displeasure with this. Back in 1988, Japanese Diet member Shintaro Ishihara and Sony Company president, Akio Morita, wrote a small book titled, *The Japan Can't Say 'No'*, which was directed against the United States. Later on, as the conflict between Japan and the United States worsened, Shintaro Ishihara and several others authored two more books, *Japan Must Say 'No'* and *Japan Firmly Says 'No'*. In these books, attacks on the United States became sharper and sharper. In mid-February 1994, during trade negotiations with Clinton in Washington, Japanese Prime Minister Morihiro Hosokawa categorically refused the U.S. demand that Japan open its markets further. This led to a rupture in the negotiations. This was the first time during the several decades since its humiliating defeat that Japan opposed the United States. American scholar Edward Leteweike [phonetic] said in his book titled, *Crisis in the American Dream* that as long as the trade deficit and the "respect deficit" between the United States and Japan continues, a gloomy forecast is the only realistic one for relations between the United States and Japan.

In light of the increasingly sharp contradictions between the United States and its main allies, Western Europe and Japan, it is very difficult to imagine that these countries will sacrifice themselves in order to "strengthen the fortress of democracy" for the United States.

3. Outlook Gloomy For Relations Between the United States and Russia.

After Yeltsin took office, a temporary "honeymoon" period followed between the United States and Russia. Both parties nurtured very great hopes for the other. The United States supposed that henceforth Russia would become a completely "democratic country." The Yeltsin government also supposed that by throwing in its lot with the Western countries headed by the United States, the dollars would come rolling in. But the wonderful vistas of both the United States and Russia very quickly shattered. Optimism gave way to dissatisfaction and even to traditional enmity. The reasons for this change were many. First of all, during the past two years, the Western countries headed by the United States made too many promises to Russia, but honored very few of them. Their deeds did not match their words. In 1992, the United States announced a \$24 billion Russian assistance plan, but only

\$15 billion was forthcoming. In 1993, the seven nation western bloc promised a total of \$43 billion in assistance, but actually provided only \$5 billion. This made Russia feel duped. The shattering of hopes for assistance from the West caused a rapid increase inside Russia of no confidence in the West. As for the United States, because of the bloody affair involving the shelling of the Moscow White House in 1993, both the people and the government of the United States were shocked. They suspected that the Yeltsin that the United States was wholeheartedly supporting was no "democrat" but a "totalitarian." Recently, pressured by the opposition in Russia, Yeltsin has been forced to revise his foreign policy of leaning toward the West. He has begun to handle international matters independently and autonomously. Russia scored high marks in mediating the Bosnia-Herzegovina clash, thereby improving its international image somewhat. Later on, a series of unhappy events occurred one after another, including the Russian army's "advance" into Bosnia-Herzegovina, the arrest of Russian spy Aldrich Ames and his wife, and the special amnesty for former parliamentary leader Khasbulatov and former vice-president Rutskoy. Specifically, when discussing the issue of air attacks in Bosnia-Herzegovina, Clinton wanted to have a direct telephone conversation with Yeltsin, but he was unable to make contact for two days. The West exclaimed in alarm: "Even during the cold war era, there was never a case in which the American and Soviet heads of state could not get through to each other on the hot line." These events greatly increased U.S. lack of confidence in Russia. Some American high level personages felt that "Great Russia had come back to life." Consequently, the United States Congress and public opinion quickly called for a reappraisal of the Clinton administration's policy toward Russia. Furthermore, these events were just the beginning. Contradictions between the United States and Russia are very likely like an iceberg in the sea, with only the tip showing.

4. *Incurs Public Wrath; Unpopular*

The Clinton administration's "enlargement strategy," unfurling the "humanitarianism" banner, promoting new interventionism, meddling everywhere, using force at

every turn, and threatening economic sanctions is bound to incur public wrath and be unpopular. Such high-handed actions have met with condemnation from many informed people in the United States, and opposition from people in all countries. They put the Clinton administration in the position of being an enemy of the people of the world.

Acting under the correct leadership of the Communist Party of China, the Chinese people scored major achievements in reform, opening to the outside world, and modernization. Economic development, political stability, the unity of nationalities, social progress, and the people's standard of living rose steadily. Internationally, China's pursuit of the "five principles of peaceful co-existence," friendly relations with all countries of the world, staunch opposition to hegemonism, and active protection of world peace, have won widespread praise and support. China's position has risen steadily. Not only has China played a decisive role in handling Asia-Pacific affairs, but it has played an important role in global affairs as well. The U.S. promotion of an "enlargement strategy," seeking all manner of pretexts to interfere in China's internal affairs and damage China's international image is bound to meet with staunch opposition from the Chinese people who have consistently opposed hegemonism and power politics.

History is merciless. In the nearly 50 years since the end of the war, successive U.S. administrations have made domination of the globe their highest goal. However, the way in which the international situation develops cannot be deflected by the subjective will of the ruling group in any single country. During this new historical period, the world is moving toward multipolarity in which the demand of the far flung developing countries for the building of a fair and equal new international political and economic order is rising daily. The development and change of international contradictions is intricate and complex. Just what will be the outcome of America's promotion of an "enlargement strategy" under the new conditions? The people of the world are waiting to see.

Thoughts on Commercialization of Culture

94CM0389A Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 8, 15 Aug 94 pp 77-78, 33

[Article by Li Dengui (2621 4098 6311) of the Philosophy and Economics Department of the Chinese People's Liberation Army Nanjing Political Academy; Liu Cen (2692 1478), Editor: "Reflections on Commercialization of Culture—Commentary on the 'Culture and Market' Scholarly Symposium"]

[FBIS Translated Text] Recently the *Philosophical Research* editorial department and the "Theoretical Problems of Socialism with Chinese Characteristics" discussion group jointly convened a "Culture and Market" scholarly symposium, expressing serious concern about various issues regarding the current commercialization of culture raised by more than twenty scholarly experts in the areas of philosophy, literature and arts, and journalism.

I. Queries About the "Cultural Market"

Comrades who brought up the concept of a "cultural market" maintain that in order to introduce competitive mechanisms in the cultural sphere and break the big pot, we must allow culture to merge with the market economy and move culture toward the market, allow the market to realize the cultural value of cultural products and determine the investment orientation and organizational structure of cultural development based on market needs and make the market the fundamental outlet of a flourishing culture.

Regarding this, the conferees indicated:

1. "The cultural market" blurs the distinction between culture and commercial culture. Commercial culture's makeup and culture's makeup are the same, but their functions are not altogether identical. Commercial culture emphasizes the entertainment function. There is no way for it to substitute for the knowledge function and the aesthetic function of other categories of culture, and no way for it to assume the general goals of culture, that is to promote the overall development and individual diversification of the people of historical bodies and achieve people's spiritual liberation and strive for the unification of truth, goodness, and beauty. On the contrary, such counter-cultural factors as pornography and violence often have a worldly connection with commercial culture. So, we cannot make commercial culture the general content of culture and make the market value of commercial culture the universal value of culture.

2. The concept of the "cultural market" blurs the distinction between the exchange value of cultural products and the value of their use and their cultural value. Under commodity economy conditions, cultural products act as material culture and must use commodity exchange as a medium. But commodity exchange can only directly achieve the exchange value of the cultural product. The price of a book is determined by the cost of printing and pay and often has nothing to do with the useful value (collection, gift, resale, or study), and even less to do with the book's cultural value. A Jin Yong [6855 1661] chivalry

novel would have a similar value with *Hong Lou Meng*. This indicates that there is no way for the market to reflect the distinction in the cultural values of these two books. Actually, to receive cultural value requires putting in a certain amount of education and a certain amount of time, and cultural value is hard to evaluate. So, generally the exchange value of a cultural product is not identical with cultural value. In addition, the consumption of cultural value has a unique durability. After one hundred people have read the same copy of *Hong Lou Meng*, the cultural value of this worn masterpiece remains the same. So, the market can only determine the exchange value of the cultural product, it has no direct connection with the cultural value achieved by the cultural product.

3. The concept of "market culture" blurs the line between market needs and cultural needs. The cultural market need is a composite product of such factors as the consumers' level of education and commercial advertising. In a country in which the majority are illiterate or semi-literate and the vast majority are aesthetically blind, if we hand over the orientation of cultural development to be spontaneously adjusted by market demand, the actual result can only be to abandon the leadership of the development of spiritual civilization, to abandon the improvement and guidance of the cultural level of the popular masses, and to abandon the historical mission of safeguarding the people's culture and the people's minds.

II. The Relationship Between Culture and the Main Economic Battlefield

Another basis for the argument for the commercialization of culture is that culture must be geared toward the main economic battlefield and serve the economy. Its true content is to attempt to include the cultural market in the socialist market economy system, to unite the material civilization and the spiritual civilization on the economic course. This essentially blurs the natural distinction between material production and spiritual production and is a new form of vulgar economic determinism.

The conferees pointed out that in a country that urgently needs to decide economic issues, there is an objective tendency for the economic market to swallow up everything, but this objective tendency is by no means its reasonable proof. We cannot take the existence of causes as actual reasons, because the market economy is a cultural activity, but culture cannot be summed up as market activity. The direct goal of the economy is to enrich the nation and strengthen the people. But as a cultural means the economy cannot make itself the ultimate goal and it certainly cannot be used to obstruct the ultimate goal of culture. We cannot expand the present center for solving existing economic problems to be the only center of an ideal society.

Secondly, economic development is not an isolated and spontaneous process without precedent. Cultural development is not only a mutual condition for economic development, but also one of the backgrounds of economic development. In an environment of cultural colonization with order and discipline broken down and moral depravity, we cannot have steady sustained economic

development. With China's commodity economy often misunderstood to be a merchant economy and a bubble economy, this is not unrelated to the chaos on the left and the right in cultural matters. So, we must investigate the relationship between culture and economy from the perspective of the inherent relationship of the material civilization and the spiritual civilization. If we are demanding that such cultural categories as the humanities produce actual economic results, it is itself unrealistic fantasy. It is a narrow utilitarian outlook. The affect of cultural development on the economy must be investigated from the broad background of society.

III. How Do We Learn From Western Cultural Experience?

Because of the universality of the market economy, there also are similarities in the difficulties that development of Chinese and Western cultures with the background of the market economy encounter. Early in the rudimentary period of capitalism, Western humanists while being sensitive to money in the crumbling feudal class system, often changed people into money worshippers. Their criticism of capitalism and their appeal to reason constituted positive factors in capitalist culture. Despite the fact that at that time, because the middle bourgeoisie's cultural evaluation abilities rather restricted Western governments' cultural policies, it caused Western cultural policies to accumulate several valuable experiences in coordinating the material civilization and the spiritual civilization. In the past we arbitrarily believed that the West was the capitalists' domain and the capitalists reactionarily determined that Western governments must support decadent culture. But actually it is by no means that simple. There undoubtedly are aspects in Western culture that are in decline, but those aspects that receive the support of Western governments are high-class culture, not commercial culture. In the West, high-class culture and such units as museums, parks, and opera houses are by no means responsible for their own profits and losses. They often are a part of society's second distribution, assisted by state investment or preferential tax exemption policies to encourage private individuals. In such countries as Sweden it has become a fundamental principle of cultural development to oppose the commercialization of literature and the arts. In Western countries a non-commercial trend has occurred in such areas as culture and education, health, environmental protection, and public welfare. Blind faith in the market has become history.

We not only should learn from measures to combine the use of the market and planning in the development of Western culture, but also when we study the scientific and technical achievements of Western countries, we should look at the inherent relationship between the development of Western science and technology and Western culture. We cannot take the Western faction's old way of looking at Western civilization, believing that we can only study the West's "strong ships and favorable guns," but refuse the positive spiritual civilization achievements in Western culture, tenaciously holding to the so-called "national study" or unique Chinese cultural features. Actually, not only does scientific proof belong to all humankind, positive achievements in Western culture, including Marxism, also belong to all humankind.

IV. Cultural Reform Should Seek Truth From Facts

Blind faith in the market and making commercialization the only avenue for cultural reform is money worship in cultural tactics. It has created harmful effects in real life. It changes the model of cultural forces and changes streamlining administration to seeking all ways to make a living in the face of the market, and further, it changes the rule of competition of selecting the superior and weeding out the inferior to selecting the superior and weeding out the inferior in the face of the market. The tendency to be fascinated with the vulgar in motion pictures and television, the scandal of chasing stars on the singing stage, the fondness for mysticism, pornography, and violence in publishing, and the budding doctrine of "going back to the ancients" in philosophy all have negatively alerted people and a large group of people have been frightened out of their wits. These spiritually lazy people with passive aesthetic judgment and criticism capabilities, because they lack the edification to lift their culture to high-class culture, have sunk to being captive of hedonistic lust and the desire for dominance or mysticism. Especially after several who have undertaken the protection of high-class cultural areas for the people's feelings and the people's minds have been moved toward the market, it has destroyed the sacredness of national culture and the national spirit in people's eyes. For example, the destruction of the Humen Battery and the commercial development of the park of the ruins of Yuanming Garden, as well as the Longmen Grotto and the Dunhuang Caves and the brutal development Yuhua Terrace have polluted our sacred historical and geographic values. These values cannot be seen or touched, but are everywhere important factors constituting our national self-respect and cohesion.

In view of this, the conferees pointed out that cultural reform cannot be divorced from the line of thinking that seeks truth from facts to generalize "noncommercialization" or "omni-directional commercialization." When an important matter occurs or a certain new technology is discovered in a certain corner of the globe, it very quickly spreads to the entire world. In these abundant social relations, such things as people's spiritual situations, progressiveness, and receptivity are clearly markedly different. But in capitalism's private ownership system that causes people to have antagonistic social relations, people appear to be extremely cold and detached from one another. Just as in the writings of Sartre, the father of existentialism, people's lives in this world feel isolated and cut off from help; nauseating, and filled with fear and worry. Based on just this kind of analysis, "Western Marxists" believe that in modern capitalist society the development of productivity causes people's material lives to clearly improve and their material needs are rather satisfied, but the malady of capitalism causes people to be unable to satisfy their spiritual needs, leading people's spirits to be lacking and empty and even degenerate.

Under the socialist system, relations between people are equitable, mutually helpful, and cooperative, especially with the gradual formation of the socialist market economy in reform and opening up, the many-sided dealings between units and industries, between regions, and

between nations and peoples are strengthened, thereby helping to form abundant social relations. With the intensification of reform and opening up and the maturation of the socialist market economy, there inevitably will be further impetus for the development of "open people" from "closed people," gradually achieving what Marx pointed out: That causing individuals to participate more and more in various areas and various levels of social intercourse with innumerable other individuals, and thereby generally exchanging material production and spiritual production with the entire world, will cause people to cast off their individual, regional, and nationalistic narrowness, broaden their field of vision, renew their concepts, and improve and demonstrate their own intelligence and wisdom, and in serving human society acquire the respect of society and history and realize their own value.

Above, the authors described the function of the socialist market economy in promoting people's development from a mainly positive perspective. But the socialist market economy is by no means omnipotent, nor is it perfect. If it is not handled well, it can lead to people's dependence on things and from there produce various negative effects on people's development. For example, the socialist market economy must strive for economic results and arouse people's enthusiasm through the drive for benefits. Money is the measure of the value of market commodities. If we one-sidedly pursue economic results and individual benefits, seeing things and not seeing people, it causes individuals to develop an excessive dependence on things and money, and could lead to egoism and worship of money, bringing about tension and indifference in personal relations and problems such as environmental pollution and ecological destruction. As far as individuals are concerned, they become wealthy for a while, but they are lacking in personal qualities and such things as eating, drinking, prostitution, and gambling come about. So, it not only brings about the development of personal deformity, but also creates disaster for society. Therefore, as we develop the socialist market economy, we must pay attention to the development of the economy and we must pay attention to personal development. Only when we have a fully developed, free population can we establish a socialist market economy and promote the development of society. The development of the economy of society and personal development are the two fundamental starting points in developing a socialist market economy, as well as the two basic measurements of success or failure in balanced reform and opening up and balanced development of the socialist market economy.

Inspection Committee on Eliminating Party Corruption

94CM0394A Beijing RENMIN LUNTAN [PEOPLE'S FORUM] in Chinese No 7, 15 Jul 94 pp 12-13

[Article by Central Committee Discipline Committee Deputy Secretary Hou Zongbin (0186 1350 6333) titled: "Party Discipline Inspection Work Must Stress the Struggle Against Corruption"]

In a speech to the Central Inspection Committee's Third Plenary Meeting, Comrade Jiang Zemin pointed out: "if

the economy is not handled well, we could fall from power; when the economy is on the rise, if the phenomenon of corruption spreads unchecked, graft and bribery run amuck, and we lose contact with the masses, then we could also fall from power." This is a profound expounding on the extreme importance of anti-corruption work. For this reason, discipline and inspection organs must make anti-corruption work the focus, and concentrate their energy on grasping its implementation, so as to be able to even better handle serving the needs of economic construction.

The Anti-Corruption Struggle Cannot Be Given Up Halfway

In the preceding period, the masses in some places have reported that the tendency in anti-corruption work is towards relaxation, the effort is weakened, and the worry is that anti-corruption work is sliding backwards in a big way. This worry is not without foundation. In order to be penetrating and long lasting, and even have an effective launching of an anti-corruption struggle, it is necessary to properly grasp the following two points:

First, it is necessary to use the essence of speeches by comrades Jiang Zemin and Li Peng on anti-corruption, and use the essence of Central Inspection Committee's Third Plenary Meeting to unify thinking. The Central Committee has already determined the direction and overall situation of the basis for this year's work of the whole party. Anti-corruption work must be subordinated to and service this direction and overall situation, and also must overcome thinking involving the fear that firmly grasping the anti-corruption struggle will effect building the economy, reform and opening and social stability. In addition, we must protect against over estimating the achievements of the previous stage, which produces a slack mood due to the increasing level of difficulty and higher demands of this year's anti-corruption struggle, and the emergence of a fear of difficulty, in order to gradually strengthen the feelings of responsibility and urgency in properly conducting anti-corruption work.

Second, leadership teams at all levels must vigorously promote anti-corruption. This point must not be let go of. The Discipline Committee leadership in some places is concentrating its energy on grasping anti-corruption, and party secretaries are taking the lead, and accepting full responsibility; deputy secretaries should grasp honesty and strict self-discipline, and investigate and take proper action for major and important cases and correct improper work styles; party committees also should all concentrate on these three missions; in addition, they should transfer personnel to replenish resources for hearing cases and responding to written petitions; they should concentrate manpower on handling cases, and increase efforts to handle large and important cases.

The Anti-Corruption Struggle Must Proceed With All Working To Carry Out the Three Missions

First, leadership cadres from top to bottom must work honestly and with self discipline. We must continue to master the implementation of last year's "five stipulations" on honesty and self-discipline. All who have not

participated in democratic life meetings for comparative examination, must make up missed lessons, must continue self-examination, and conscientiously make corrections; all issues emerging from self-examination that have not yet been corrected, must be dealt with according to regulations; all those people who again violate regulations must resolutely be investigated and have proper action taken.

Second, in carrying out handling of discipline cases all must devote effort. On the one hand, for valuable clues that have already been grasped, we must not let go; for cases already put on record, we must accelerate the rate of progress in resolving the case; for cases that have already been thoroughly investigated, we must resolve them as rapidly as possible, and typical cases must be publicly handled. On the other hand, it is necessary to expand the sources of cases, and unearth new clues, while severely punishing newly discovered illegal and reckless behavior. In investigating cases and taking proper action, we must be even more effective at severely and seriously punishing illegal and reckless behavior.

Third, we must devote effort from top to bottom in correcting work styles. We must properly handle the "three orderings, the one check, and the two alignments"; putting in order the chaotic collection of fees, putting in order the use of public money for going abroad for tourism, and putting in order party and government organs and their work personnel using enterprise property; each business must put a stop to incorrect work styles that the masses strongly oppose; party and government organs must achieve alignment through setting up economic entities, and administratively collecting fees, and punishing those who do not have revenue and expenditure information. This year we must look for new results in these areas.

Properly Conducting Special Topic Democratic Life Meetings

The key to properly grasping the anti-corruption struggle is the proper grasping of the honesty and self-discipline of leadership cadres, and the key to properly handling honesty and self-discipline is properly conducting measurement (to standards), and self examination and self correction democratic life meetings, and raising the quality of democratic life meetings.

First, attitudes must be conscientious, and demands must be strict. Each party member leadership cadre must conscientiously compare and contrast the honesty and self discipline regulations in properly handling measurement; when it comes to issues that emerge from self-examination, it is necessary to conscientiously carry out correction, and achieve organizational peace of mind, satisfaction of the masses, and putting one's self at ease. For a democratic life meeting that has gone well, for comrades that have this or that problem, once there is self-examination and correction, there is an opportunity for releasing a burden; for everyone this is an opportunity for self education, and strengthening consciousness of self discipline. Leadership cadres at all levels should have a positive attitude handling self-examination and self-correction, particularly for comrades who have violated central regulations on honesty and self discipline. They must have a proper attitude, and try to

gain the initiative. It is necessary for democratic life meetings of party organizations to have a serious and solemn attitude, with strict standards, and strict demands.

Second, properly handling preparation, and strengthening supervision of examinations. Prior to democratic life meetings, it is necessary to conscientiously listen to the opinions of cadres and the masses. During democratic life meetings, it is necessary to conscientiously carry out criticism and self-criticism. Following democratic life meetings, it is necessary within certain boundaries to issue a circular on the situation of self examination and self correction, subjecting oneself to the supervision of cadres and the masses.

The Key To Conducting Discipline Case Work Is Increasing Manpower for Investigating Cases and Taking Proper Action

At present it is necessary to increase the manpower for investigating cases and taking proper action, to accelerate the rate of progress on handling cases, to increase the quality of case handling, and to make breakthroughs on a number of major and important cases that will have influence. We must emphasize the proper grasping of the following points:

First, strengthen reporting of petitioning [statements of grievance], conscientiously arranging for the investigation of case clues. For the preceding stage when the masses visit and send letters supplying clues, it is necessary to arrange for an investigation, and for cases reported by the masses we must by no means leave a matter settled by leaving it unsettled. For important clues, we cannot drop them, but must in a timely manner pay close attention to initial examination work, and adequately and timely record cases.

Second, stress the main points, and concentrate forces on handling cases. On cases involving obstructions to reform, development, and stability, and cases reflecting the strong opposition of the masses, particularly graft and bribery, financial fraud, and personal economic criminal cases, we must deal with the main points involved in investigating and dealing with the cases accordingly, seize hold, and concentrate effort on a battle of annihilation.

Third, jointly handle cases, and eliminate interference. We must gradually strengthen mutual coordination among discipline examination and supervision organs, judicial organizations, and administrative control departments. In cases involving overlapping of party discipline, government discipline, and legal discipline, we must have joint handling of cases, with organizations having a particular advantage mutually filling in where needed, with coordinated activity, to ensure that in the investigation and handling of major and important cases there is no missing of opportunities for winning the battle, and achieving timely breakthroughs.

Fourth, strengthening leadership, and clarifying responsibility. The leadership must personally organize, direct, and coordinate work involved in handling cases. For real difficulties and problems encountered by lower levels during handling of cases, leadership levels must provide

guidance and assistance, and particularly for those cases where there is great resistance, and much interference, leading comrades must have a clear attitude, provide support, and must appear personally, and decisively deal with the situation. It is necessary to establish a case handling responsibility system, and achieve a situation where there the mission is clear, and the responsibility is carried out.

Correcting Unhealthy Tendencies Must Be Done Constantly, With No Slacking

Unhealthy tendencies are many in number and cover a range of aspects, while the situation is complex, and the difficulty in correcting these is quite large. For this reason, work involved with correcting unhealthy tendencies must start from actual conditions, and grasp the facts of a situation from top to bottom, with not great hubbub, and no blast of wind.

First, it is necessary to have a clear goal. The Central Discipline Committee's Third Plenary Session proposed a nationwide goal for correcting unhealthy tendencies, and each region, and each department must properly handle this work item by item. At the same time, each region and each department should start from their own actual conditions, and determine the concrete goal of the work involved in correcting unhealthy tendencies for each region and each department. We must breakthrough the main points, and cannot try to do too much, and be too scattered. Each year we must concentrate on solving one or two problems, this will be an effective approach.

Second, we must have a goal that makes examination and checking convenient. In the wake of the deepening

of work on checking unhealthy tendencies, it is necessary to make every effort to formulate a set of scientific and quantifiable examination goals that make inspection work convenient. In formulating goals we must grasp one step at a time, as in going for the unattainable, we will lose peoples' trust, but lowering our sights is tantamount to having no requirements.

Third, we must have relevant policies. This means distinguishing situations, and for unhealthy tendencies, we must have policies on how to handle correcting them, how not to correct them, how to handle normal violations of discipline, how to handle serious violations, and how to go against the wind, and we must delimit their boundaries.

Fourth, we must have concrete measures. The basic measures for correcting unhealthy tendencies are to treat the problems by looking at their root causes and symptoms, and it is necessary both to check the trend, and to grasp its origin. It is necessary to grasp each move, ideological, systemic, professional, and organizational, as a set, and consolidate it, forming a system and standards. Practice proves that specialized treatment is an effective approach to checking an unhealthy tendency, and we must grasp this as the foundation for this type of work. Business-related, unhealthy tendencies are a social problem, and the whole party must get to work, while each aspect must be uniformly grasped and jointly handled, and tackled in a comprehensive way. Discipline inspection and supervision organs must grasp this, each administrative professional responsible department must also grasp this, and each must propose requirements, be strictly responsible, and mutual cooperate.

National Affairs, Policy

Interview With Economist Wu Jinglian

94CE0772B Nanjing XINHUA RIBAO in Chinese
29 Jul 94 p 7

[Interview with Wu Jinglian (0702 2417 8834) by XINHUA RIBAO reporter Wu Xianman (0702 0341 3341); place and date of interview not given: "The Difficulties of Building a Market Economy"]

[FBIS Translated Text] [Wu Xianman] Professor Wu, how are you? On the occasion of the founding of the Jiangsu Market Economy Society, would you tell us your views on some of the problems in China's drive to build a socialist market economy?

[Wu Jinglian] Certainly. I think there are currently three groups of theoretical and practical issues relating to the socialist market economy that we need to look at. The first group consists of major theoretical issues. Economists from classical economists on down have always used the market economy as their subject of study. In the wake of the neoclassical revolution of the late 19th century and early 20th century, the Keynesian Revolution of the mid-20th century, and some other developments that came later, modern economics has become a fairly coherent discipline. Certainly there is still a host of major issues that have yet to be aired, but since we do not seem to be in the forefront, we are not equipped for any major theoretical innovation. The primary mission for most domestic economists is to study and master modern Western economic theory without delay. The second group consists of theoretical issues pertaining to the socialist market economy, for example, what is a socialist market economy? What is socialism? Issues like these we have been studying for years. The decision of the Third Plenum of the 12th CPC Central Committee in 1984 called for a planned commodity economy, but there was actually no public consensus. Hence the subsequent setbacks. The objective of creating a socialist market economy has now been clearly defined; we have passed the political test but the issue has not been totally resolved theoretically. Hence the frequent considerable resistance in practice. The core issue here is this: What is socialism? What is public ownership? Can public ownership and the market economy coexist? How are they to be handled? It seems that these issues have not been completely aired so that when it comes to the actual implementation of reform itself, such as the reform of the company, many problems arise. These issues involve the modern development of the socialist theory and it will take a lot of hard work to resolve them. The third group consists of issues pertaining to the transition from a planned economy to a market economy. The Third Plenum of the 14th CPC Central Committee has given us the marching order: Full speed ahead on the reform front. However, to win a total victory in this battle is no picnic. It includes resolving many theoretical and policy issues in the transitional phase. Comrade Deng Xiaoping said, "In reform if you don't move forward, you are regressing." We have made it thus far in reform. If we do not move forward now, it would be a defeat for economic development as a whole. There will be minor setbacks, but a major failure must be

avoided. Otherwise it would be too much for anybody to cope with. This transition is a typical non-linear progression. Nuo Si and others have pointed out in their recent works that systematic change is path-dependent; it does not necessarily go where you want it to go. In other words, you may set the right objective and choose the right general direction, but it does not mean everything will then fall into place. You also need to choose the correct detailed route. Otherwise an error the breadth of a single hair can lead you a thousand li astray. You start out just a tad off course, and the system will drift further and further from the goal by the force of its own logic. The 14th CPC National Congress has explicitly laid down our objective and the Third Plenum of the 14th CPC Central Committee has pointed out a general direction. Both are major triumphs. However, if the various compromises and adjustments we make in the course of actually putting reform into practice result in deformity, we may end up with something completely distorted beyond recognition. When that comes to pass, we may find ourselves bogged down in a chaotic and ineffectual system. These days therefore we must closely watch how every piece of reform is actually coming along and correct any deviation promptly.

[Xinhua Ribad] The current macroeconomic situation is highly complicated. Economists have different interpretations and opinions. You have always proposed keeping a tight leash on the money supply while decontrolling prices and bringing inflation under control. What do you make of the present macroeconomic situation? What are your policy suggestions?

[Wu Jinglian] Economists can be divided into three schools of thought depending on their analysis of the current macroeconomic situation and their policy proposals. In the first camp are economists who believe that on the whole there is still some slack in the macroeconomy, which they blame on the retrenchment of 1993, and advocate an expansionary monetary policy. Also in this camp are people who call for the abolition of the existing system of volume control and would like to see a continuation of the negative interest rates now in effect. In the second camp are economists who propose that macroeconomic regulation and control be kept at its current intensity. They argue against an expansionary monetary policy but call for the proper use of economic tools. They want interest rates to be raised to replace administrative means of regulation and control. The retail price index rose at an annual rate of 50 percent in the 4 months between November 1993 and February 1994, retreated in March, when it increased at an annual rate of less than 10 percent, and headed upward again in April and May, climbing at an annual rate of between 18 and 19 percent. The effective interest rate at the end of last year and early this year was between 10 percent and 15 percent. Negative effective interest rates are highly inflationary and must be gotten rid of. The third school of thought believes that the current macroeconomic situation is just about right and all we have to do is to keep the economy working the way it is. Economists in this camp share the control objective of the second camp but also agree with the practical methods of the first camp. In other words, they are opposed to raising

interest rates and advocate the continuation of negative interest rates. How should we reconcile the fight against inflation with negative interest rates? The answer is to use administrative tools to limit the total volume. My assessment is that inflation has been slowing down, which shows that the money supply is generally right where it should be, but the structure is awful. The fact of the matter is that despite their efficiency, some areas have no access to funds. Even places which deserve no access to funds echo others' demand for funds. This situation and other considerations may prompt the government to loosen its grip on the money supply, a step that may backfire and push up prices. When inflation gets bad enough the government may again put the brakes on the economy. So the cycle repeats itself. That way things would easily get out of hand. In that we have learned a lesson in the past. By the way, these days the press talks about macroeconomic regulation and control being applied too indiscriminately. You would think that there were macroeconomic regulation and control also under the planned economy. Anything important, anything that the government regulates, that is macroeconomic regulation and control. In fact, macroeconomic regulation and control can be found only in a market economy. It means total volume management. All modern market economies feature macroeconomic regulation and control.

[Xinhua Ribad] The achievements of economic reform in China are recognized worldwide, in contrast to the results of economic reform in other countries with a planned economy. This has led some foreign economists to attribute the success of reform in China to a so-called incremental reform strategy. You are a strong advocate of a coordinated comprehensive reform strategy. What is your opinion of this interpretation of the incremental reform strategy?

[Wu Jinglian] Foreign (primarily American) economists do indeed see the incremental reform strategy that way and there are people at home who agree with them. These scholars believe that the incremental approach is effective and will eventually lead to success. Within China, some pro-reform experts too look favorably upon the incremental strategy and suggest that we stick to it in the future. I don't agree. Only the state sector has used the incremental approach and reform in the state sector is not the success story of Chinese reform. The hallmark and strength of our reform is the leading role played by reform outside the system, which also explains the success of the early phase of reform. The first success story was rural output-related contracting, which replaced the traditional people's commune system within just two years. This is not incrementalism but robust development outside the system. Development outside the system and opening up to the outside world. These two things formed the basis of economic growth. The nonstate economy has grown by leaps and bounds. This strategy, however, is not sustainable in the long haul. The longer it exists, the sharper the contradictions. First of all, as long as the new order is not fully in place, there will be no major gain in efficiency, economic growth will remain essentially a product of increased input, and inflationary pressures are ever-present. Given the current level of efficiency in China,

World Bank experts, quite rightly to my mind, consider the economy to be over-heated as soon as the annual growth rate exceeds 7 percent each year. Second, at a time when administrative power intervention is widespread and the market is disorderly, corruption has a strong institutional base and so-called "rent-seeking" will proliferate and be reflected correspondingly in policies and politics, consciously and otherwise. Such forces would hamper reform deepening, even distorting reform and creating a "rent-seeking" environment. These days the stock market is disorderly and must be regulated, but that won't be easy. It is not necessarily a good thing to close the futures market, but it is imperative that we strictly regulate it and tighten its management. Third, there is a tendency for the social institutional income gap to widen. To begin with, the living standard of peasants is not going up fast enough. Large numbers of rural migrants cannot find a permanent job. This is what is called the dualism of developing countries. We must look to rising accumulation in the modern sector to absorb the migrants and bring about modernization. This is not just an economic issue. If it worsens, it may well turn into a social and political issue. Back in 1984 the CPC Central Committee already made the decision to urbanize the reform strategy, but related reforms were not introduced in 1986 and no breakthrough came in 1988. As a result, the decision of 1984 came to nothing. Subsequently there were criticisms that reformers were too impatient for success. Only after Deng Xiaoping toured the south in 1992 and delivered some speeches did we turn the tide. Since last year the central government has actually introduced two groups of measures. The first, introduced in June, sought to step up macroeconomic regulation and control and was designed to rein in inflation in a hurry. The second group consisted of basic measures designed to advance reform. The "decision" settled on the reform strategy of combining advancing across the board with achieving breakthroughs in critical areas and introduced five major pieces of reform, in finance, banking, foreign exchange, enterprises, and social security. If all of them are implemented, I expect a basic framework to be in place before the year 2000. For now the pace of implementation seems to be rather uneven. Fiscal reform is moving ahead quite smoothly. In foreign exchange reform, the first step is the convertibility of regular items. That too is coming along quite well. However, the three other pieces of reform are not making as much progress as one would like. Financial reform, for instance, has not lived up to our demand primarily because of the slow pace of the commercialization of specialized banks.

[Xinhua Ribad] As you noted earlier, the progress in enterprise reform has been less than satisfactory. Enterprises, particularly state enterprises, have all sorts of problems these days. What do you think should be done?

[Wu Jinglian] It is not just state enterprises that are in trouble. Township and town enterprises too have some problems. For instance, a number of township enterprises in southern Jiangsu are becoming more and more like state enterprises. If this situation continues, I am afraid they won't survive the disruptions caused by China's accession to GATT. They too need to be reformed. Having said that,

the biggest challenge is state enterprise reform. There are two approaches. One is importing foreign capital to finance reform. There is some disorder on that front right now and irregularities are happening. We must bring it under control. The other is on-the-spot reform, that is, company reform that leaves the existing property rights structure intact. As far as state enterprises are concerned, the issue in on-the-spot reform is the clarification of property rights. A big chunk of the current assets of state enterprises actually consists of the social security funds of their employees. They should be separated from the existing assets and returned to the funds for their management. The current assets also include housing funds. There is a possibility they may come under public ownership in the future. The second issue is to create a legal-person management system. Ownership is to be separated from control. The system will work only if there is just one new three-committee decision-making body. Managerial personnel should be appointed by the board of directors. As long as the owners do not sit on the board or be part of the enterprise's inner circle, the three-committee checks-and-balance structure cannot be set up. All these issues must be worked out. The third issue is so-called unbundling. The burden must be removed. People pin their hopes on policies. If things do not work out, we may end up on the same old track of delegating power and sharing profits. Public ownership should come in a variety of forms and shapes. Besides government ownership there should be ownership by the public, as in the case of social funds. Organizations such as insurance funds and pension funds, in particular, have highly promising prospects. Whether they are made up of savings or contributions, funds should be publicly owned.

[Xinhua Ribad] The relationship between the central government and the localities has been an issue throughout the entire course of reform in China. You have always proposed that the division of economic power replace the division of administrative power. Nowadays there are different opinions and proposals regarding management by level. Can you tell us what you think?

[Wu Jinglian] We must first be clear about one thing, namely that in economics, macro regulation and control refers to the regulation and control of the total volume. There used to be the notion of two-level macro regulation and control, which does not seem right to me. There has to be a separation of power in financial matters, but the regulation and control of the overall money supply must be and can only be the sole responsibility of the central government. This is because money circulates freely and recognizes no regional boundaries. If the regulation and control of the money supply is split between government at different levels, things will ultimately get out of control, to the detriment of a unified market. And it is the regulation and control of the total volume of money in circulation that is most critical in a market economy. The issue here is not what different opinions there are in the localities, but from what angle we are going to look at the issue. Should we continue to use the old planned economy as our framework of reference, or should we put things in the context of the market economy? These days there is a vocal

demand for widening private fund-raising channels. I am all for widening such channels, but actually this is a micro issue in the financial system, not one of controlling the total volume. Private financial institutions are not and should not be appendages of the central government. As far as the regulation and control of the money supply is concerned, the main issue is to maintain the authoritative-ness and effectiveness of the central monetary body. To a big country with a socialist market economy like ours, nothing else is more important. We must continue to work hard to eliminate local protectionism and administrative separatism and keep the nation's market unified and intact.

Economist Xiao Zhuoji's Comments on Economy

Views Rapid Growth Rate

94CE0777B Beijing ZHONGGUO SHUIWU BAO
in Chinese 5 Sep 94 p 1

[Article by Jiao Zhiqian (3542 1807 6197): "Noted Economist Xiao Zhuoji Comments on Rapid Economic Growth"]

[FBIS Translated Text] Recently, at a conference of senior cadres from departments under Qingdao City's direct administrative control, noted economist and Beijing University professor Xiao Zhuoji said: In the last three years, China's economy has grown quite rapidly, 12.8 percent in 1992, 13.4 percent in 1993, 11.6 percent in the first half of this year, and about 11.5 percent projected for all of 1994. Some people now consider that the Chinese economy is overheated and should be cooled down. How can one judge if the economy is growing too fast? What criteria should be used to measure whether or not it is overheating?

Xiao Zhuoji said: The rate of economic growth has been relatively rapid in recent years, and there are inherent reasons for rapid economic growth. First, with intensification of reform, various components of the economy are taking off rapidly and this is the most important reason. Foreign-funded and rural enterprises have developed rapidly, stimulating overall economic development. Last year, China's total industrial output value increased by 24 percent; in this context, state-run enterprises increased only 9.3 percent, collective-run enterprises 41.7 percent, and rural enterprises 64 percent; from the standpoint of sectoral contribution to economic growth, state-owned enterprises accounted for 23 percent, while rural enterprises accounted for more than 50 percent. That shows that economic growth in the non-state-run sector has been relatively rapid, which gives the impetus to overall economic growth. Second, the great productive capacity developed in the last few years also drives the economy toward growth. In the two years of 1992-93, fixed asset investments totalled almost 2 trillion yuan and the large volume of such investments has raised the production capacity. Third, after several years of investing in fixed assets, notable gains have been made in the energy and transportation sectors. Last year, the capacities of the following sectors have increased: electric generation by 8.8 percent, highway transportation by 11.2 percent, railway goods transport by 12.4 percent, harbor handling by 10.1

percent, postal and telecommunications by 58.9 percent—all of which alleviated the constraints in the economy. Fourth, there was an inflow of a large volume of foreign investment. Last year, the actual inflow of foreign investment totalled \$25.8 billion, an increase of 135 percent, or more than double that of 1992. The amount of foreign capital actually utilized in the first half of this year is greater than in the comparable period of the year before, which generates considerable forward momentum in the economy. Fifth, banks and financial entities now have the capacities to support economic growth. After macroeconomic adjustments were made last year, monies on deposits in banks have increased, and capital funds are now available to support appropriate economic growth. Sixth, despite the rather high inflation rate in the last two years, cash incomes of urban and rural residents have increased at a rate exceeding that of inflation; citizens' increased real incomes have raised purchasing power and increased demands for goods and services, which further stimulate economic growth. Seventh, in terms of the world economy, beginning the second half of last year, economic growth in major capitalist countries has been quite respectable; the U.S. for example may achieve a three percent growth rate this year, and this provides rather favorable conditions for China in terms of international trade; last year and in the first half of this year, China's exports and imports increased by rather large margins, further stimulating China's economic growth; there are, therefore, many reasons for China's rather rapid economic growth in the last two years.

There are, however, two differing views with regard to this kind of rapid economic growth: One view holds that rapid growth is a good thing, development is a firm principle, and objectives-oriented development should be even more rapid as it helps speed up China's modernization and construction and change the image of China as a backward country; another view holds that the great pressure created by rapid growth constitutes overheating. Today there are different explanations for overheating: One explanation states that the criteria of overheating are defined by government's plans, and growth which exceeds government's plans is overheating. For example, China's planned growth rate for 1992 was 6 percent, later adjusted to 8 percent, but the actual growth rate was 12.8 percent which exceeded government's projection, and the economy therefore was overheated. Another explanation holds that Western nations also consider the Chinese economy as overheated, judged by criteria used in foreign countries, particularly those used in developed countries. Among developed countries, annual economic growth rate is one to two percent, and a three percent rate means the economy is growing very well indeed; these countries dare not even think of an economic growth rate approaching double-digits; they consider that overheating, for they can hardly comprehend or explain a double-digit economic growth rate. Therefore, whether from the standpoint of a planned economy or in terms of the developed countries' view toward economic growth, China's economic growth is certainly overheated. But with any scientific criteria used to determine overheating, one should also consider whether economic growth is exceeding the capacities of the

nation's manpower, material and financial resources, and whether the various component of the national economy are operating normally; in these terms, therefore, six criteria may be applied:

First, concurrent with economic growth, have economic benefits increased or declined?; second, under conditions of rapid growth, are the corresponding relationships of the various components of the national economy well coordinated, or seriously out-of-sync with each other?; third, along with rapid growth, is technology progressing, stagnating or even regressing?; fourth, concurrent with rapid growth, is the nation's foreign exchange reserves increasing, or declining by any large amounts; fifth, is the nation's management of fiscal receipts and expenditures normal, or is there a situation of imbalance creating tension?; and sixth, is the people's standard of living rising or declining by large margins?

The above six criteria spell out the important conditions for measuring whether economic growth is reasonable, normal or overheated. From the standpoint of the situation developed in recent years, including the first half of this year, one can say that although our economic growth is relatively rapid, most criteria indicate that there have been improvements, and even though some criteria show no marked improvements, they nevertheless indicate no further decline; under these circumstances, I would consider that China's rapid economic growth is reasonable.

Naturally, relatively rapid economic growth can create definite difficulties and tension in various respects. There was a period of considerable tension, such as in the first half of last year when production materials were in short supply, their prices increasing quite rapidly, and capital funds critically short, particularly in terms of in-time availability for major construction projects. But viewed from another angle, if the economic growth rate were relatively low, the difficulties would be even greater. People can see the effects of inflation, and we must seriously deal with the problem, but what is most frightening is the prospect of stagnation in the economy and the inflation rate remaining relatively higher, for this type of situation is extremely difficult to manage. An economy growing at less than seven percent will create many problems. One of the problems is that the government will have increased difficulty managing fiscal receipts and expenditures; another problem is the prospect of many enterprises incurring deficits, with the scope and number of bankruptcies greatly increasing, since our enterprises cannot discharge workers because of a slow growth rate and their fixed costs can only increase but not decline. Furthermore, if the economic growth rate declined and the scope of investment shrinks, a huge pool surplus labor will surface, particularly in the rural areas; at present, approximately 70-80 million peasants are seeking employment in the society every year and if economic growth slows and investments decline, many will not find employment and this constitutes a social issue of major magnitude. At this juncture, we are in a transition period moving from a centrally-planned to a market-oriented economy and many current contradictions are the result of contradictions between the old and new systems; if we slow down the pace

of reform, we will be prolonging the transitional period from the planned to the market economy, exacerbate the contradictions of the two economic systems, and raise the costs of undertaking structural reform. Therefore, at a time when conditions for reform exist we should firmly grasp and exploit the opportunity and timing. Beginning next year, China's economic growth will enter into a period of readjustment and the growth rate will decline to around 10 percent after adjustments are made next year; from the 1990s to the beginning of the next century, China can probably maintain an annual economic growth rate of around 10 percent. In the coming decade and beyond, therefore, the overall situation in China indicates that rapid economic development will continue.

Comments on Current Inflation

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in Chinese 7 Sep 94 p 1

[Article by Jiao Zhiqian (3542 1807 6197): "Noted Economist Xiao Zhuoji Comments on Today's Rather High Inflation Rate"]

[FBIS Translated Text] The rate of inflation has been quite high these two years, 13 percent last year, 19 percent in the first half of this year, and the cost of living index of China's 35 large and medium-sized cities now stands at 21 percent; this inflation rate is far higher than the average in the last 15 years: from 1979 to 1993, prices increased at an average of 6.3 percent.

Why is it that the inflation rate has been rather high in the last year or so? There are numerous causes: First, the price reform; last year, the pace of price reform was very rapid and the number of measures taken very numerous. According to the statistics, prices increased 60 to 80 percent due to the impact of price reform, and the effect can still be felt this year. Second, there was taxation reform; although the overall level of taxes was not raised, the reform affected prices differently. For some commodities, increasing their taxes led to price increases, but for other commodities, lowering their taxes did not result in lowered prices. Third, there was a change in exchange rates which amounted to a de facto devaluation of the renminbi [RMB]; at present many enterprises need to rely on imports for components, parts, and other facilities, and the exchange rate resulted in higher fixed costs for those enterprises. At the same time, many basic products China produces are below world prices; therefore, domestic prices were adjusted upward to the world market's level, which meant price increases. Fourth, the money supply increased at a rate which exceeded the rate of economic growth. From 1978 to 1993, the annual rate of economic growth averaged 9.3 percent, but the increase in money supply averaged 25 percent; that is to say, money supply exceeded economic growth by a large margin. Fifth, with prices strictly controlled in the two years of 1990-91, price increases were kept low; when controls were lifted in the last two years, the inflation held in check in the prior years was released. Sixth, there was the excessive scale of investment; price increases in production materials impacted on

the production costs of consumer goods, creating cost-driven price increases. Seventh, the level of consumption among citizens has risen and the consumption pattern is changing from meeting the basic food and shelter needs to satisfying the lifestyle of the moderately well-off, and this has had an impact on prices; furthermore, the masses expect prices to rise, which in itself is cause for a price increase. Eighth, there is ineffective and imperfect management on the part of those responsible for managing the economy, resulting in some localities and enterprises taking unilateral steps to raise commodity prices and further fueling inflation. In short, the current high inflation rate has numerous causes, the most important of which are policy and structural reasons.

Inflation may be divided into five types: The first type is called appropriate or low-level inflation, generally at 3 percent or less. This inflation rate does not have much impact on economic life, but may have certain negative effects. The second type is called moderate inflation, generally at between 4-6 percent which, although it serves the function of readjusting supply, demand and allocation of resources, also generates considerable negative impact on economic life. The third type is called high inflation, i.e. at 7-10 percent, which produces considerably greater negative impact. Inflation rates of over 10 percent are considered excessive is the fourth type, which can create chaos in many aspects of life in the society, as well as in the production, allocation and circulation of goods and services. The fifth type is called pernicious inflation which, in addition to a high inflation rate, has several special characteristics: slow economic growth, panic-buying, a declining real standard of living, further distortion in price relationships, and loss of confidence in the RMB on the part of the masses. In terms of the current situation confronting our country, however, the prevailing inflation is excessive, but has not yet reached the pernicious stage. This is because, first of all, despite the relatively high inflation rate, our economic growth has been quite rapid, and the rates of inflation and economic growth are keeping up with each other at 13 percent. This year, the inflation rate will probably be higher than the economic growth rate, but this is a short-term phenomenon for it is quite possible that both rates will decline next year. Second, despite the rather high inflation rate, the citizens' standard of living is in fact rising, and cash incomes of urban dwellers increased by 35 percent in the first half of this year which, adjusted for price increases, still shows an increase in real terms. Third, the commodity supplies are quite ample and despite the rather high inflation rate, supply exceeded demand in a majority of industrial and consumer products, and the reverse is true only in a small number of cases. The situation with agricultural side-line products, however, is not too encouraging.

We can see therefore that one very important cause for the high inflation rate is price reform. The end result of price reform should have been beneficial in terms of rationalizing price relationships, but in the past, our policy was aimed at keeping prices low, and lowest in three particular areas: low rail fares; low housing rents; and low grain and food prices. Experience of the past 40 years demonstrates

that this low-price policy runs counter to the laws of pricing and market economics. Today, the results of past policies are: an increasingly serious shortfall in rail transportation due to the sluggish development and construction of railroads; an increasingly serious housing shortage among urban dwellers due to the lack of development of urban real estate and housing construction; a lack of motivation among farmers to grow grain which seriously affects their enthusiasm for production, rural economic development in general and consequently improvement in peasants' livelihood. Therefore, we cannot only talk about the merits of stabilizing prices in general but must also conscientiously analyze the problem of prices from the standpoint of promoting development of the productive forces.

The crux of the matter is that the inflation rate has already reached double-digits; any country or government would be under great pressure created by this phenomenon and would want to take steps to deal with it. Therefore, it is reasonable that the central government consider price control and combatting inflation to be the primary task in the second half of this year. To achieve these goals, however, the government should adopt comprehensive management measures, for we cannot rely solely on price inspections on a massive scale. First, we should accelerate the process of reform, especially enterprise reform, strengthen enterprise vitality, and increase the economic benefits, all of which are basically needed. Second, under the current circumstances, we should slow the pace of price reform, because the pace was too fast last year, so that today prices in about 90 percent of the commodities are already freed, but for some commodities, prices should be freed slowly so that the inflation rate can be slowed down appropriately. Third, we should increase the channels for consumption and investment to absorb the purchasing power. For example, speeding up the commercialization of housing is a very important channel for consumption; so are travel, tourism etc. In terms of investment channels, today there is only the buying of stocks and bonds; we should henceforth develop multiple channels to disperse the purchasing power and relieve the pressure on the consumers market. Fourth, under conditions of relatively high inflation, we should as appropriate compensate people for wages, benefits and interests. Such compensation is now available for long-term deposits called the "certificates of deposit." In fact, we should now consider the whole issue of raising interest rates. At the same time, we should compensate wage earners at all levels, so that their salaries will keep up with prices. Fifth, we should look after those in the low income categories. Today there is a considerable proportion of people in low income categories; under relatively high inflationary conditions, the livelihood of these people is difficult indeed and they should be looked after. Sixth, we should firmly grasp the task of supporting agricultural production, for good or bad harvests, greater or lesser quantities of agricultural products, and the overall situation of supply and demand for agricultural products, all have a particularly strong impact on prices in our markets. Therefore, on the issue of

inflation, we must conscientiously deal with it, and recognize that relatively high inflation has adverse consequences in many areas of our economic life, but at the same time we should not panic when we mentioned "inflation." In more than a decade of reform and opening, we have developed relatively strong economic capability, and the broad masses have also developed considerable capacity psychologically as well as economically to cope with inflation. Therefore, we should certainly be able to discuss the issue of "inflation" without panic.

Trade Commission Official Views Enterprise Bankruptcy

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[Article by Chen Qingtai (7115 3237 3141), Vice Minister of State Economic and Trade Commission: "Speech at 'Seminar on Enterprise Bankruptcy'"]

[FBIS Translated Text] The "seminar on the special topic of enterprise bankruptcy" is the first special topic seminar on experiments carried out in 18 selected cities. Over the past two days, participants at the seminar exchanged their information on bankruptcy, introduced some typical bankruptcy cases, discussed the major points and difficult issues on bankruptcy at present and revised the "Several Provisions on Enterprise Bankruptcy." They had reached a common understanding on some issues through debates, and expressed their own ideas on some controversial issues. This will be conducive to carrying out the work of bankruptcy even more healthily, enthusiastically and reliably.

I. To optimize the capital structure is a measure of fundamental nature in running state-owned enterprises well.

This year, the State Economic and Trade Commission and other nine departments have carried out experiments in various cities to "optimize the capital structure and help enterprises increase their strengths." These experiments are mainly aimed at helping state-owned enterprises make corresponding changes to cope with the several major economic structural reform programs this year. Prior to this, the basic measure adopted to run individual state-owned enterprises well was to help them continuously carry out some policy readjustments by decentralizing power and giving up profits to lower-level units. After the announcement of several major reform measures this year, we must exert even greater efforts to use means of market economy to explore the ways out for the state-owned enterprises. That is, we must help them develop better external environment, create conditions for fair competition and establish a legal system to select the superior and eliminate the inferior so as to revitalize more enterprises under the influence of market forces.

Our experiences have shown that state-owned enterprises which can run their businesses well are not isolated cases. The experiments carried out in several cities are aimed at using the cities as a testing ground to combine our efforts in streamlining the enterprises' internal administration

with those in improving their external environment; combine our efforts in helping individual enterprises improve themselves with those in readjusting their organizational structure; combine our efforts in improving state-owned enterprises with those in developing the regional economy; and combine our efforts in helping enterprises change the way they operate and set up a system with the improvement of government functions. That is to deep our reform by taking both the state-owned enterprises and the enterprise environment into consideration.

Right now, the inventory of state-owned assets is enormous as compared with the economic sectors under other ownership systems. However, the operational efficiency of state-owned economy is relatively lower. The industrial and organizational structure of the existing state-owned enterprises are formed with the planned economy as the basis. This kind of structure is outdated with the increase of the market forces and the rapid development of multiple economic sectors. In order to revitalize the state-owned enterprises and raise their work efficiency, we must optimize their capital structure. Here we have a double meaning. First, we must optimize the government capital in terms of geographical distribution and enterprise allocation. This kind of optimization can be achieved by moving the government capital from one industry to another and from one enterprise to another. Second, we must improve the capital quality [zi ben zhi liang 6327 2609 6347 6852] of various state-owned enterprises and rationalize their capital structure, particularly the ratio between the enterprise's assets and liabilities and that between the floating assets and fixed assets.

Right now, the capital position [zi ben zhuang kuang 6327 2609 3692 0400] of some state-owned enterprises has worried us. Basically a great majority of state-owned enterprises had never increased their capital for nearly 10 years. The No. 100 Document issued by the state in 1983 prevented any floating capital from flowing into state-owned enterprises. Afterwards, the state adopted the measure to change state appropriations into loans to such enterprises. This had once again stopped the flow of fixed capital into state-owned enterprises. Meanwhile, the amount of funds reserved for the depreciation of the enterprise's fixed assets is always insufficient, and the depreciation funds are not enough to compensate the wear and tear of equipment in simple reproduction. Excessive taxes and profits have worn the old enterprises hollow, while adding new pressure on them. Furthermore, state-owned enterprises have to spend a large amount of money to bear the financial burden in supporting social undertakings. In order to survive, enterprises must borrow money to carry out renovations. With the amount of debts rising, state-owned enterprises are unable to bear the heavy burden. In short, state-owned enterprises have been denied government capital for 10 years, while bearing heavy financial burdens. In the course of advancing toward a market economy, many enterprises have encountered difficulties in face of strong competitors at home and abroad. According to statistics compiled by 18 cities where experiments are being carried out, the average ratio between assets and liabilities of state-owned enterprises is 70.3

percent, while the ratio between their floating assets and liabilities 92.7 percent. The 70.3 percent asset liability ratio alone is not so terrible. What causes people concern is the poor capital quality of many state-owned enterprises. That is to say that their products are obsolete, technology backward and, equipment outmoded, and their factories are over-staffed. They have to bear the heavy financial burden in supporting social undertakings and are in heavy debts. All this makes it difficult for many enterprises to stand up. According to a survey conducted in Liaoning Province, 12 percent of the state-owned enterprises in the province are competitive in the market, 18 percent of them may revive after they change the ways they operate; 14 percent of them will not survive. The remaining 56 percent are at a cross-roads. They may possibly exist if they improve their management and secure the needed more capital. However, they may possibly go under if they refuse to improve their management and carry out renovations. These state-owned enterprises are typical in the province.

At a time when China is marching toward market economy, a fundamental measure to build state-owned enterprises well is to improve the distribution and allocation of government capital and the structure of assets and liabilities. That is to make the necessary structural readjustment of the large state-owned assets in stock and find a way out to run state-owned enterprises well by optimizing the allocation of assets in stock. This kind of work must be carried out with the support of cities. Therefore, we particularly pin our hopes on the various cities where experiments are being conducted. Many people have reached a common understanding that right now, it is unnecessary and impossible to run all the state-owned enterprises well under the current structure of state-owned enterprises. It is unnecessary to do so, because the existing structure of state-owned enterprises itself is irrational. It is impossible to do so, because we financially cannot afford to do so. Therefore, various cities where experiments are being carried out must carefully examine the organizational structure of the industry, the production lines and the enterprises while keeping in mind their strategy in the development of the regional economy. They must devise new points of growth for the development of their own economy and comparative advantage. They must pay attention to promoting their regional economy as if it were the national economy or even the global economy, and carefully examine the role of each state-owned enterprise in the entire regional economy in the course of optimizing the allocation of the state-owned assets in stock. Precious capital increase must be regarded as a catalytic agent. That is, a small amount of capital increase in the course of allocating state assets may generate new productivity. Therefore, we must regard our efforts to upgrade enterprises as the central task, rely on the cities, adopt specific measures to suit the conditions of a specific plant in quickening our pace in making structural readjustments. Enterprises with favorable conditions must form national teams or regional teams through amalgamation and group operation. Enterprises with poor conditions must readjust their stock assets and change their asset and liability structure by shutting themselves down, suspending their operation, merging with others or changing their line of

production or by leasing themselves to others on a contractual basis or selling themselves out. In short, in the course of making readjustments, we must not only pay attention to helping individual enterprises, but also attach importance to developing the regional economy. We should not see the trees only without seeing the forest. We should not pay attention to immediate interests without taking the long-term interests into consideration. Bankruptcy is a drastic form of readjusting the stock assets. Various cities where experiments are being conducted must attach importance to handling bankruptcy cases so as to use bankruptcy to readjust the stock assets. That is to make the best use of the capital.

II. To form a bankruptcy mechanism is of great significance.

Right now, two things are of actual significance in changing the management mechanism and establishing the system. The first one is to develop a new enterprise financial and accounting system so as to make the financial situation of the enterprise readily apparent and interface with the world market. The second one is to establish a bankruptcy mechanism to help those hopeless enterprises declare bankruptcy, prevent further losses of their assets, re-distribute the remnant assets and give the enterprise a new lease of life.

As far as an enterprise is concerned, bankruptcy is a radical form in adjusting its organizational structure (equivalent to taking its name off the official list); an ultra-possibility for an enterprise to assume its own profits and losses and their own risks; a sublime phenomenon of market competition and a mechanism of the survival of the fittest. That means to say that all the people involved, either owners, managers or creditors, should assume the consequences of whatever they have done. Even workers of those enterprises under poor management will also suffer. The mechanism of restraint thus formed is a down-to-earth one.

As far as creditors are concerned, the establishment of a bankruptcy mechanism provides them with a special protection. It is a policy to prevent the creditors' interests and rights from further losses when the debtors' financial situation gets worse. The losses of the owners and creditors are not caused by the normal bankruptcy procedure itself. On the contrary, it is precisely when the losses of the assets are irretrievable and the enterprise has reached the stage of insolvency that it seeks to declare bankruptcy to prevent its creditors from suffering even greater losses. At that time, bankruptcy seems to be the only realistic choice for the creditors. Owners of the enterprise which declares bankruptcy will get nothing from their investment. This is the consequence that they have to face for their poor enterprise management. This will force all owners to make their policy decisions more prudently and choose their managers more carefully.

Workers of the enterprise which declares bankruptcy are innocent. However, under the system of market economy, the reassignment of the manpower is inevitable after an enterprise declares bankruptcy. The bankrupt enterprise has no conditions to continue its operation, and the social economy has no need for any enterprise which declares

bankruptcy. In a certain way, the use of the social security system to reassign the workers of a bankrupt enterprise to places where they can play their role well is something good. However, this process itself is a painful one. The bankruptcy mechanism will increase workers' sense of anxiety and makes them worry more about the rise and fall of the enterprise.

To form the bankruptcy mechanism is a necessary condition for developing a modern enterprise system. A modern enterprise must get rid of the special protection given it by the government and operate in the market on its own. The government no longer assumes unlimited joint responsibility for the state assets in any enterprise. Under the system of market economy, the government must use the mechanism of competition to continuously eliminate these weak links in the production and management chains, and channel all these rare and precious natural resources to places where they will be put to their best use. It must use the enterprise bankruptcy mechanism to firmly restrain the market behaviors in various markets and facilitate the continuous flow and relocation of stock assets.

Bankruptcy remains a difficult task in the process of replacing the old structure with a new one.

With the deepening of the reform program, some favorable conditions now prevail in administering bankruptcy. (1) The state has enacted the Enterprise Bankruptcy Law. Although it needs to be further improved in the course of administering it, at least we have such a law to follow. (2) A number of typical cases have been handled such as the major bankruptcy case of the state-owned Chongqing General Knitwear Mill. (3) The relevant department of the state has made arrangements to set aside reserve funds for bad debts to write off uncollectible accounts and laid a material foundation for enterprises to go bankrupt. (4) The "Yin Chuan No. 34 Document" (in 1994) has clarified some issues not specifically spelled out in the Enterprise Bankruptcy Law on how to help reassign workers and solve the problem on how to raise funds for the placement of laid-off workers. (5) The leading comrades of the State Council have actively carried out publicity work on enterprise bankruptcy. Their work has aroused full attention from various sectors concerned.

How can we appraise the current situation on bankruptcy? Some people say that there is a "bankruptcy craze," while others say that "it is difficult to go bankrupt." Even more people realize that right now we urgently need to establish a bankruptcy mechanism in order to help enterprises change the way they operate and set up a new system. However, as viewed from the angle of bankruptcy administration, it is still difficult to go bankrupt. It is hard because during the period when the old system is being replaced by the new, measures of the old system cannot be used, while those of the new system are not useful. Enterprises in Western countries are accustomed to bankruptcy. They are faced with crises at all times. Nevertheless we have our own actual conditions right now. For example, where is our motive power to declare bankruptcy? Who is willing to take the initiative to apply for bankruptcy? Managers are often reluctant to apply for bankruptcy for

fear that they may be held responsible for their poor management. Between finding out who is to blame for extending the loans and assuming debts, creditors often worry more about the former. They are reluctant to demand that enterprises declare bankrupt. The government is also worried about enterprises declaring bankruptcy. It fears that it may have to bear the financial burden for several years. Furthermore government policies and laws are imperfect. There are no rules or stipulations for the enactment of the "Enterprise Bankruptcy Law." For example, how does the government which was formed under the original system deal with loans given to enterprises and how do the enterprises themselves guarantee their loan repayments. How can bankrupt estates be defined. In what way can the real estates of a bankrupt enterprise be handled. All this has not been specifically defined. The social security system and the system to guarantee the well-being of the workers of a bankrupt enterprise have not been established. The labor market remains immature. Programs for retraining and placing workers of a bankrupt enterprise are not well developed. There are not many go-between organizations in society. It is still hard to liquidate bankrupt's estates and turn them into cash. In addition, people in society cannot swallow the concept of bankruptcy. In order to carry out the work of handling bankruptcy cases well in cities where such work is being promoted on an experimental basis, the State Economic and Trade Commission recently coordinated with nine departments to draft provisions to enforce the enterprise bankruptcy law so that this law can be enforced more easily. Participants at the prevent forum had extensively discussed the provisions and offered many valuable suggestions. Although they view issues from different angles, they have one common understanding. That is, for those enterprises which have neither the ability or the value to survive must declare bankruptcy as soon as possible in order to avoid the further losses of the state assets. For this, it is extremely necessary to clarify some relevant policies. This is our starting point to study and revise the provisions to facilitate the enactment of the law.

IV. We must carry out our operation not only normally but also realistically and feasibly.

In a certain sense, bankruptcy is a judicial act to unequivocally protect the creditors through a strict and regular judicial procedure. A creditor's legitimate rights and interests is the basic principle in administering bankruptcy. However, under the abnormal situation with the new system replacing the old, the issue of bankruptcy, particularly the bankruptcy of state-owned enterprises seems to be more difficult and complicated in face of the series of current and past problems. It is reported that the National People's Congress is recently working on a project to revise the "Enterprise Bankruptcy law." It plans to clarify some issues, and make this law tally with the international practice, while conforming with China's actual conditions. For example, the question of whether or not priority should be given to setting aside a special fund for the re-settlement of workers is a controversial issue. On this issue, I think: (1) When workers entered the original factory, they had not been given a two-way choice. When

the factory declares bankruptcy, it is not the workers' fault. (2) The fixed assets of state-owned enterprises are under-depreciated, while no insurance funds of any types for the workers are reserved. Then, where are the insurance funds for the workers? In a certain way, workers' insurance funds have been converted into state assets through various channels and re-invested into the enterprise. Some people think that a part of workers' insurance funds are included in the assets of the state-owned enterprises. I believe that there is some sense in what they say. (3) Workers' wages are also at variance with reality. In addition to the relatively low wage with which workers maintain simple reproduction, workers also enjoy other benefits such as housing, children's childcare and schooling and hospitalization. These benefits are also a part of the workers' wages. In the past, state-owned enterprises are run by the government. The state decided what to manufacture and the price of the products. Now that the enterprises have reached such a stage, it seems to be unfair to pin all responsibilities on those who run these enterprises. In this connection, we cannot compare China with other modern countries where market economy is being practiced. It will be impractical and hard to push forward our work on bankruptcy if we do not take the aforementioned problems into consideration and only seek to mechanically copy what the other countries are practicing on bankruptcy. Nearly seven years have passed since the "Enterprise Bankruptcy Law" was promulgated in 1986 and went into effect on a trial basis in November 1988. During that period, a total of 948 bankruptcy cases were handled averaging over 100 cases per year, of which not more than five medium-sized and large enterprises declared bankruptcy. It is reported that the rate of bankruptcy for enterprises in the United States is 1.1 percent, while China's rate is only 0.9 per 10,000. Our problem in carrying out reform is the lack of a market mechanism and a social security system. However, we will never be able to establish a bankruptcy mechanism if we have to wait until the bankruptcy mechanism is developed to handle bankruptcy cases, because such mechanism is an important component part of the market system. Without a bankruptcy mechanism, it is impossible to form a complete and sound market mechanism.

In order to establish a sound bankruptcy mechanism, we must work out some provisions for the implementation of the bankruptcy law in light of the actual conditions at present. For example, we must work out reliable and feasible provisions on how to apply for bankruptcy, compile the bankrupt's assets, use such assets as a collateral, carry out relief and re-settlement work for laid-off workers and sell the bankrupt's estate. All these are necessary requirements for administering bankruptcy. Meanwhile, we must realize that in the course of administering bankruptcy, creditors must make certain concessions. It is a realistic choice to extricate themselves from the predicament of losing everything and reduce their losses to a minimum. They may choose not to declare bankruptcy and continue to lose their assets; or make certain concessions and declare bankruptcy. As an assets manager, one must weigh the advantages and disadvantages and make the best choice. Meanwhile we must set a time limit for the

provisions. For example, the provisions are only valid during the period when the old system is being replaced by the new. After this period, the provisions will become invalid. We must also set a scope of application. For example, the provisions should only be applicable to state-owned enterprises. During the initial stage, we may also set a geographical limit. For example, the provisions are only valid in several cities where experiments are being carried out. In short, it is necessary to standardize the bankruptcy procedure. We must carry out this procedure not only normally but also realistically and feasibly.

V. Our attitude must be firm and our steps safe and reliable.

Various cities where experiments are being carried out must actively handle bankruptcy cases, because the needs, prerequisites and requirements to do this are already available. There are needs, because we want to stop further losses of state-owned assets, form a bankruptcy restraint mechanism and make the best use of the stock assets as soon as possible. There are prerequisites, because we have the support of the State Council and the local leading comrades. The state financial department and the bank have set aside reserve funds to write off bad debts and have issued the Yin Chuan No. 34 Document and lay a material foundation for helping laid-off workers find jobs. There are requirements, because both the government and the enterprises have realized the urgency in readjusting the organizational structure of the enterprises. They understand that only by popularizing the concept on bankruptcy can we do a still better job in establishing a modern enterprise system.

It is for this reason that various cities where experiments are being carried out must be determined to handle bankruptcy cases well. Each of them must try to help at least one or two enterprises declare bankruptcy during the third or the fourth quarter, gain experience in the course of practice and further study relevant laws and regulations. Bankruptcy is a major event for the enterprise and the personnel concerned. We must not act rashly. In the course of handling bankruptcy cases, we must carry out our work meticulously. We must handle easy ones first and complicated ones later. We must prepare a preliminary hearing on bankruptcy, carry out our publicity work well and help the people concerned to become mentally prepared. Meanwhile we must not mix our efforts in handling bankruptcy cases with those to find out who is to be blamed for the business failure so as to avoid making things more complicated. It is necessary to help establish the social security system in the course of popularizing the concept of bankruptcy. We must consult with all the parties concerned, particularly the major creditors, and help all those with the necessary conditions to declare bankruptcy.

Enterprise bankruptcy is a judicial procedure. In the ordinary course of events, there is not much for the government to do. However, under the present situation, bankruptcy cases cannot be well handled without the participation of the government. Various localities must coordinate with all departments concerned to handle bankruptcy cases according to the principle laid down by the

"Enterprise Bankruptcy Law" and under the major prerequisite of stopping the losses of state assets and maintaining social stability. In addition, it is essential to standardize the procedure for the transaction of property rights in the course of handling bankruptcy cases. In light of the problem concerning China's losses of state assets during the transaction of property rights, the General Office of the State Council had recently issued the No. 12 Document, instructing the State Trade Bureau to coordinate with the State Economic and Trade Commission to draft a document to standardize the procedure for the transaction of property rights. There are two completely different views on the question as to whether or not a bankrupt enterprise may "split first before declaring bankruptcy." That is, whether or not a bankrupt enterprise should be allowed to pick up the good apples in the course of throwing away bad apples. There is no need to argue among ourselves about this issue. It is more important to present the typical cases, compare the bankruptcy plans and figures, ask the creditors and debtors to negotiate with each other before they reach a conclusion. In short, the basic conditions for the administration of bankruptcy are already available. Various localities should no longer wait. They must make full use of the opportune moment at present to actively, safely and reliably handle the bankruptcy cases.

VI. We must energetically explore ways, know the policy well and guard against negative effects.

When an enterprise does a good job in going through the bankruptcy procedure, it protects the creditors and helps the debtors extricate themselves from their predicament, and provides the workers with an opportunity to change their jobs and demonstrate their skills. Therefore, some people say that the "Bankruptcy Law" is a "law which brings prosperity." In a certain way, bankruptcy means a lease of new life. However, it will create negative effects, if bankruptcy cases are not well handled. Many people had spoken at this forum on important subjects. Bankruptcy touches upon a wide range of subjects and it is an important and complicated policy issue. Therefore, we must go through the entire procedure of bankruptcy under the supervision of the judicial organ, while the government must impartially coordinate with all the relevant departments instead of directly interfering with the judicial procedure. Otherwise, it will create an after-effect which it would be hard to deal with for many years. Right now, there are indeed some enterprises that are eager to wipe away their debts and try one thousand and one ways to dodge creditors. They seek to transfer their funds and ignore debts. It is indeed a problem that merits our full attention in handling bankruptcy cases. We must help enterprises strengthen their sense on their liabilities and the creditors' rights. We must not distort the concept of bankruptcy and create the idea that there is no need to pay back debts. We must use typical bankrupt enterprises as examples to help workers enhance their sense of risk and handle the relations well between workers and creditors. We cannot set excessively high standards in relocating laid-off workers and should not create a mechanism under which workers of a bankrupt enterprise may lead a better life than those of an ordinary enterprise, because this

practice runs counter to our original intention in promoting the concept of bankruptcy.

In short, when this forum ends, everybody must go back, accumulate experience in the course of practice and put forward more constructive proposals. In working out the "several proposals," we must solicit views from all sectors and coordinate with the department concerned of the State Council in revising the proposals. We must report our findings to the State Council for examination and approval. After that, these proposals should be carried out on a trial basis in 18 cities. They will be put into effect throughout the nation after revision.

In carrying out experiments in handling bankruptcy cases in 18 cities, the aforementioned nine departments will enter the stage of studying and discussing other special topics. "Bankruptcy" is one special topic, followed by other special topics such as the reappraisal of fixed assets and the circulating funds and the replenishment of operating funds. In short, the experiments carried out in various selected cities are not aimed at enjoying favored treatments, but gaining experience by using market economic measures, conducting investigations and studies on special topics to work out a standard procedure. We must first carry out experiments in 18 cities, continue to improve and revise our ways in doing things, and then put them into effect throughout the nation on a trial basis.

Researcher Views Characteristics of Inflation

94CE0782C Beijing JINGJI CANKAO BAO in Chinese
6 Sep 94 p 4

[Article by Liang Hua (2733 5478), affiliated with the State Planning Commission's Economics Studies Center: "A Brief Analysis of the New Characteristics of China's Current Inflation"]

[FBIS Translated Text] China is focusing its 1994 macroeconomic regulation and control policy on curbing inflation. All macroeconomic indexes show that our national economic operations for the first half of 1994 were within the limits of macroeconomic regulation and control expected value. Our price trend reached a turning point, with our retail price comparative index falling monthly since March to reach 18.9 percent for May, down 1.7 points from February; our capital goods price rises fell sharply every month, with our commodity sales price index for the first 5 months at only 3.7 percent, including -2.6 percent for May. Meanwhile, our industrial output maintained a quite high growth rate, with our national GVIO [Gross Value Industrial Output] for the first six months up 18.8 percent, including increases of 20.1 percent for light industry, and 17.6 percent for heavy industry. Our exports grew faster than our imports, with our foreign exchange reserves rising quite fast; our bank deposits were up sharply, with more currency withdrawn from circulation than in former years.

We hold that in our new economic-growth pattern, the current round of inflation has new development features. The major causes of the current inflation growth are the structural price-adjustment factor and market influences. 1. The government took the initiative to adjust [raise]

prices. Our higher price increases in 1993 were concentrated mostly in food and service prices, which was related to our deregulation of grain, edible oil, and service prices in 1993. Of our 1993 national retail price rises, this price-adjustment factor accounted for three-quarters [75 percent], while spontaneous price rises accounted for only 3 to 4 percent. In the first half of 1994, we again took a series of steps to raise the prices of basic products, such as grain and edible oil, oil, rail freight, power, and coal, which also had a key impact on price rises. But as the tail factor gradually dissolves, such structural price rises will fall back steadily. 2. Our clearly growing price rises since the fourth quarter of 1993 are directly related to grain price turbulence at the end of 1993. This abnormal grain price turbulence touched off a chain reaction of price rises for related commodities, such as meat, poultry, eggs, and produce. Analysis by a concerned figure at the Ministry of Agriculture shows that this sudden turbulence in grain prices, in addition to (husked) rice sales exceeding output in some southern zones, was touched off mainly by abnormal causes, such as the desired results not having been achieved in grain sales marketization reform, and prompt and effective market management not having been exercised over deregulated-price commodities. As steps have been taken to repair our market order, such price-rise factors have been effectively curbed. In 1994, due to factors, such as price adjustments and policy support for agriculture, our areas sown to grain and cotton are both up from 1993, with our staple farm product output expected to grow further on the heels of 1993's bumper harvest. At least since 1994's summer grain purchasing, grain prices have been falling, with the projection that rural market trade prices will likely be lower than state purchasing prices.

Our ultimate antiinflationary aim is to preserve social and economic stability. As the current round of inflation was caused largely by government price-adjustment initiative, with the change of subsidies from covert to overt touching off structural price rises, it has had a limited impact on living standards. The impact of the current round of inflation on the individual mindset and social stability differs sharply from previous situations. Our recent inflation rate topping 20 percent still did not touch off panic in our individual consumer mindset, with retail markets steady but soft instead, and the first five months bringing a real growth of retail consumer goods sales of only 4.5 percent, while individual savings and treasury bond purchases experienced a sustained sharp rise. This also reflects from another aspect our new inflationary features under our new economic-growth style.

We hold that by the end of the first half of 1994, our short-term macroeconomic policy had achieved great success in its mission of curbing inflationary expansion. The future direct factors causing price rises will be whether price adjustments are appropriate, whether our market management of prices is effective, and whether our farm product supplies are ensured. As for the deeper structural and cost-push factors that cause inflation, our antiinflationary measures must be linked to a long-range growth policy and reform advances. Particularly in the 1990s,

when nonstate industrial enterprises make up more than one-half, with our macroeconomic regulation and control base and targets sharply different than in the 1980s, our macroeconomic regulation and control limits should be the whole society, not simply state enterprises. As our form of conversion of savings to investment grows ever more complex, we need to deal correctly with the relations among our economy growing more monetary-, property-, and finance-oriented, promoting the sound growth of money markets and the marketization of our financing form, so that our macrofinancial regulation and control finally becomes money-market grounded.

We hold that while our current inflation remains too high (particularly when measured by comparative indexes), our macroeconomic regulation and control needs to be leading and farsighted, with the crux being whether prices are rising or falling, and whether link-relative prices are high or low. Our link-relative index of retail prices for March through June 1994 was respectively 0.5 percent, 1.3 percent, 0.7 percent, and about 1 percent, all low. But since the lagging impact of price adjustments has still not been eliminated in 1994, particularly with upstream product price reform in May having impact on final consumer goods in the last half while, after financial reform, we are not certain what changes our new monetary operating forces will touch off in our currency multiplier effect and currency circulation rate, we still need to maintain a policy of appropriate control of our total finances.

Article Analyzes Inflation, Related Problems

94CE0776A Beijing GONGREN RIBAO in Chinese
7 Sep 94 p 3

[Article by Zhong Pengrong (6988 2590 2837) and Chen Jianwei (7115 1696 1218): "Analysis of Several Inflation Problems"]

[FBIS Translated Text] In recent years, China's economic life has always been plagued by inflation. In order to curb inflation, the government has adopted a series of measures and attained some results. However, problems have not been basically solved. This has made people feel puzzled on many issues. Does inflation play an positive or negative role in promoting economic growth? In China, what are the reasons to create inflation. What is the main reason for this? How can we extricate ourselves from inflation? People show grave concerns over these questions. All these questions will be discussed in this article.

How can we deal with inflation in our real economic life.

In reality there are two totally different points of view on inflation. Some people believe that inflation is conducive to economic growth, while others say that inflation undermines the economy.

We believe that in determining whether inflation is either beneficial or harmful, we must pay attention to the following questions: (1) Are funds raised by inflation are used in economic construction? (2) Is the rate of inflation so high that it goes beyond the endurance of the people?

Inflation and price hike will lead to the devaluation of the currency. The devaluation of the currency is also called money tax. That means the tax to be collected from people who have money. The targets of taxation are their deposits and cash. The tax rate is the rate of inflation. For example, the total amount of bank deposits in various forms was 2,323.03 billion yuan and the total amount of money in circulation was 586.47 billion yuan in 1993. Their grand total was 2,909.5 billion yuan. The general retail price index in China rose 13.2 percent in 1993, and the currency in the whole society was devaluated by 13.2 percent. In other words, those who have money (including deposits) paid a hidden tax of 383.988 billion yuan.

It is important to know in what way this hidden tax of 383.988 billion yuan is used. If this amount is used for economic construction, particularly for the development of infrastructure (because infrastructure is a bottleneck of China's economy), then inflation and the hidden tax thus collected are beneficial to economic growth. The huge amount of money is scattered among tens of thousands of families. Some families plan to use the money as a production fund, while others spend it on consumer goods. A considerably large amount of the money may be used to buy luxury consumer goods. Inflation and currency devaluation reduce every 100 yuan they have to 86.8 yuan (rate of currency depreciation at 13.2 percent)—a loss of 13.2 yuan. The portion spent on consumer goods, particularly the portion used for the purchase of luxury goods, is duly reduced. This portion of money will be converted into production and construction fund and turned into funds for doing railway maintenance work and developing energy resources.

On the contrary, if the amount is used for expanding government offices, buying collective consumer goods (such as cars), subsidizing state-owned enterprises and other nonproductive purposes instead of being used in economic construction, then inflation is harmful to economic growth, because a considerably large portion of deposits and cash of residents and enterprises taxed by inflation are production and construction funds. Due to inflation and currency depreciation, a portion of the production and construction fund is taken away in the form of hidden tax and used for consumption. In this way, the result of the inflation is that a part of the production and construction fund has become consumer fund which cannot generate any new productive force. It is bad for social wealth.

The actual current situation in China indicates that a portion of the hidden tax collected in the form of inflation and currency devaluation is used for economic construction, while another portion used as nonproductive expenses, of which a large percentage is used to make up the losses of the state-owned enterprises. This kind of subsidy is not made by state finance. It is made in the form of bank loans. That means, the banks are increasing the amount of their loans to the long-term loss-making enterprises. Most of the loans are bad debts. Right now, we have no way to accurately calculate how much of the money tax is used as production and construction fund and how much of it is used as nonproductive expenditure.

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Another major criterion to determine whether inflation is beneficial or harmful is to see if the rate of inflation is appropriate or not. Inflation will not hurt the large number of residents deeply if the inflation rate does not drive the great majority of people beyond their endurance either psychologically or economically and they are able to accept this kind of inflation rate. Nor would they take any particular measure to deal with inflation. This kind of inflation has not yielded any pernicious social results.

If inflation goes beyond the endurance of the large number of residents and throw them into a psychological panic, it will cause many harmful effects. Firstly a large number of residents will be unable to keep up with the high cost of living. This situation will stir up a social unrest. Secondly people will lose their confidence in the currency due to high rate of inflation. They are unwilling to put money in the bank as savings or keep cash on hand. They often buy gold or silver jewelry, houses or foreign currency in order to guarantee the value of their money. This causes a tremendous waste of social wealth. For example, some well-off families buy two or three houses to preserve the value of their money. This has caused a great deal of waste and left many houses unoccupied. Again, many residents buy gold and silver jewelry to preserve the value of their money. As a result, a great deal of precious metal are not being used for production and construction. Furthermore, many residents keep foreign currency in order to preserve the value of their money, while the state funds in foreign exchange are laying idle. It is reported that in Guangdong Province alone, the amount of Hong Kong dollars in the hands of the residents exceeds HK\$10 billion.

At what rate do we consider the inflation rate as appropriate? This is a variable. The higher the people's income, the more they can endure inflation. According to the current situation in China, most of the people are able to endure inflation if China can control its inflation rate under 10 percent. The state should adequately subsidize the small number of low-income and disadvantaged residents. For this, the state may use a part of its revenue from inflation to set up an inflation relief fund to help the small number of low-income residents who are struggling to eke out a living under the pressure of runaway inflation.

Inflation caused by system and inflation caused by policy.

Inflation caused by system means that when the current system is operating, it will create inflation on its own. The current system that brings about inflation is, first of all, the financial system. The main features of China's existing financial system are as follows: The state owns and operates the banks. It assumes the full responsibility for their profits and losses. Under this system, loans are not considered as a business activity. They are similar to gifts. This situation is manifested in two aspects: 1) After borrowers obtain the loans, it is unnecessary for them to return them when payments are due. They may not need to pay back their loans at all. 2) The loan interest rate is lower than the inflation rate and the market equilibrium interest rate. The annual interest rate for bank loans is about 10 percent, but the inflation rate in large cities exceeds 20

percent. In some localities, the interest rate for short-term loans between one enterprise and another may reach as high as 35 percent. It is for these two reasons that everyone in the country wants to borrow money. Loans have become a scarce and precious financial source. The great majority of people who visit the provincial capital or the state capital on official business trips try to secure loans. The strong pressure from all parts of the country to procure loans has repeatedly raised the state-approved loan ceilings. All this will inevitably bring about inflation.

Another important system that has a relatively direct connection with inflation is the investment system. China's investment system has the following three characteristics:

1. Investments are mainly determined by government officials. In a county, projects are mainly decided by the magistrate and county party committee secretary.
2. The main financial source for investments is bank loan.
3. The state assumes the risks for investment on a unified basis. In order to increase the amount of projects, job offers and revenues, all local governments wish to make more investments. In addition, there is no risk to increase the number of investment projects. Therefore, all local governments try one thousand and one ways to turn their wishes into actions in developing more investment projects. As a result, the governments at the lower level submit more projects; the banks offer more loans; and the high authorities print more paper money.

The current enterprise system is also an major source in creating inflation. The characteristics of state-owned enterprises are: many of them survive, but none of them collapses. Many enterprises are deficit-ridden over a protracted period of time. Some of them have lost as much as 100 million yuan each, but they are still operating and paying their workers regularly. These debt-ridden enterprises are another reason in creating inflation. The normal relation between an enterprise and the market is that the former invests its money (including its money in the bank) into the market, and acquire the raw material and semi-finished products and the consumer goods for the workers from the market. After a certain period of time, it turns out the products needed by the market. It then puts the products on the market and retrieves the money it put on the market before. This will not create inflation. If an enterprise cannot sell its products, it must declare bankruptcy, liquidate its assets and uses its assets to retrieve the money which it put on the market before. If an enterprise can use neither its products nor its assets to retrieve its money, the money which it put on the market before will remain on the market for a long time, thus affecting the commodity price and becoming a source for inflation. Many long-term loss-making enterprises in China, which refuse to go bankrupt but continue to pay wages to workers are precisely this kind of enterprises which only put money on the market without knowing how to retrieve it.

Inflation caused by policy is the inflation touched off by the changes of the money policy or measures adopted for

policy considerations such as permitting the enterprises to raise funds by issuing stocks, etc.

When the central government implements a relatively loose and easy money policy and increases the supply of loans, the total amount of money supply in circulation will rise and commodity prices will go up. The situation in the past several years shows that the central government has always paid great attention to stabilizing commodity price. In general, it is relatively strict in controlling the money supply. The excessive supply of money and the high inflation rate are not mainly caused by the central government's inflationary policy. They are the inevitable outcome of the current systems. To permit enterprises to raise funds by issuing stocks may also increase the amount of currency in circulation. Excessive amount of currency in circulation may also bring about inflation. Similar to the extension of loans to enterprises by banks, the issuance of stocks by the enterprises to raise funds may also increase the amount of currency in circulation and the total social demand. Some people believe that enterprise issue stocks and shares, and residents or units with the status of a legal person buy stocks and shares. This part of the money will become the funds of the enterprise which issues the stocks. If an enterprise issues stocks, its bank deposits are not reduced. They are only transferred. Therefore, the issuance of stocks by enterprises will not increase the total amount of money in circulation. In fact, the issuance of stocks by enterprises is not aimed at increasing their deposits. It is aimed at purchasing raw material and semi-finished products and buy commodities as an investment. The amount of extra funds which they have obtained by selling stock will not lay idle for long. They will soon be used in purchasing raw materials and semi-finished products and buying commodities as an investment. If the residents have not bought stocks, their deposits in the bank may possibly become their long-term savings. Thus, a part of money which may be put into use for a long time has become the fund which can be put to use by the stock-issuing enterprise. This has accelerated the speed in money circulation, which is equivalent to increasing the total amount of currency.

Generally speaking, China's inflation is mainly one caused by the system, because the current system entails many expenses, an account of which needs to be submitted. Those expenses include those caused by the overexpansion of government organizations, expenses caused by financial losses of enterprises, and expenses caused by excessive investment projects. Since the introduction of the reform program, expenses of this category have rapidly increased. Revenue from taxation alone is not enough to meet such expenses. It is necessary to offset these expenses by dipping into the ordinary people's money and bank deposits. Inflation is actually aimed at raising money to offset the aforementioned expenses. As long as the aforementioned expenses caused by the current system exist and so long as such expenses are to be offset by dipping into the ordinary people's money and bank deposits, it will be impossible to eliminate inflation. Adjustments in the money policy can only change the range of the inflation to a certain extent.

Curbing inflation with reform and curbing inflation with economic curtailment.

On the basis of the aforementioned analysis, measures to curb inflation can be divided into two major categories. One category is to curb inflation with reform measures, while the other is to fight inflation with measures of economic curtailment.

China's inflation is the inevitable result caused by the existing system. The fund raised by means of inflation to offset the aforementioned expenses is a necessary requirement for the existence of the present system. Therefore, the basic way to curb inflation is to quicken our step in reforming our present system. A tight money policy can only be regarded as a supplementary measure for curbing inflation. It cannot cure the illness. It can only relieve the pain when the patient is unable to endure it. At the time when China is unable to basically change the present system, the excessive use of the tight money policy to fight inflation will produce relatively serious side-effects to our economic life.

In order to curb inflation, we must, first of all, reform our financial system and solve the problem created by those who say that it will be a fool not to procure loans and that it is in vain to obtain loans. We must establish a set of mechanism. On the one hand, we must ensure that borrowers must apply for moderate amount of loans only instead of an unlimited amount of loans. Only when the expected economic return of the investment or business deal is higher than the loan interest rate, would borrowers dare to accept loans. Otherwise, they would refuse to accept even if loans are offered to them. (One of the major tasks of a Japanese banker is to make loan offers to enterprises.) On the other hand, we must not easily approve loan applications. Only when we are sure that loanees can pay principle and interest back on due date, should we grant the loan. With this set of mechanism, we will be able to create a situation whereas tens of thousands of people will consciously place the credit scale and thus the inflation under control. To create such a situation, we must ensure that commercial banks (including the existing specialized banks) make their own decisions and assume the responsibility for their profits and losses. When the commercial banks genuinely assume the responsibility for their own profits and losses, extend loans in close connection with their immediate interests or even with the fate of their bank presidents, would they become serious in extending loans and pay attention to other loan procedures. The excessive demand for loans is also related with the low loan interest rate. To solve this problem, we may temporarily rely on the measure of appropriately raising the interest rate. However, from a long-term point of view, we must establish a system to determine the right interest rate which should be mainly regulated by the market forces. With this kind of system, the interest rates will automatically go up, when the demand for loans is too strong. On the one hand, enterprises with less earning power would automatically reduce their production and business scale and abandon those investment projects with little economic prospects. As a result, there will be less demand for funds in the entire society. On the other hand,

the rising interest rate will attract more deposits. Some residents will reduce their spending, while putting more money in savings. Both of them would help curbing inflation.

To reform the investment system is an important measure in fighting inflation. Right now, bank loans are the main financial resource in making major investments in China. A good measure to reform the investment system is to change bank loans to direct financing in developing investment projects. If the main financial source in developing a project is from residents' spare money or the accumulated funds of the enterprise, the investment scale is mainly enlarged by reducing the bonus and the benefit fund of the enterprise and cutting back the spending of the residents. This only reforms the structure of the total social demands. It will not increase the total volume of the social demands. No matter how large the investment scale will be, it will not bring about inflation. With this kind of investment system and a strong mechanism to restrain credit funds established by reforming the financial system, people will not arbitrarily develop investment projects even if they are encouraged to make investment.

To implement a mechanism in the enterprise to demonstrate that it can either survive or go bankrupt and that only the fittest can survive is another measure to curb inflation. Just like what we mentioned earlier, deficit-ridden enterprises are the major root source of inflation. A considerably large portion of the funds raised by inflation is used as "loans for stability and unity" granted to these enterprises to make up their losses. If the mechanism of selecting the superior and eliminating the inferior is introduced and those debt-ridden enterprises which cannot turn loss into gain are made to declare bankruptcy, the inflation which these enterprises have caused would automatically disappear.

To quicken the pace in reforming and streamlining the government structure and cut administrative expenses is another important link in reducing the deficits at all levels and curb inflation.

To stress the need to combat inflation through reform does not mean to deny the role of the tight money policy in curbing inflation. Particularly at a time when inflation is relatively serious and the normal economic order is being undermined, it is necessary to appropriately tighten the money supply or even to control the investment scale and the prices of certain commodities. Before a new economic system is formed, all these aforementioned policy-related measures can be used as principal measures to combat inflation. However, they cannot be regarded as institutional measures of a fundamental nature.

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Causes of Current Inflation Deemed Non-Monetary

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[Article by Lin Zhiyuan (2651 1807 6678): "Non-Monetary Factors Contributing to Inflation in China."

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[FBIS Translated Text] Monetarist economic theory defines inflation as the general increase in prices caused by excess money supply. Based on this, the only policy choice for curbing inflation is to raise interest rates and tighten credit so as to control the quality of money and stabilize prices. In contrast, the most basic characteristic of inflation caused by non-monetary factors is when a price increase has nothing to do with the money supply, or when a price increase precedes an increase in the money supply. Since China implemented economic reform and decontrolled product prices, raising the interest rates, tightening credit, and controlling the money supply have consistently been the basic policy measures for curbing inflation. But in 1993, after raising interest rates drastically and tightening the money supply, product prices continued to rise. Why? The answer can only be that economic reform and development in the last few years have changed the micro foundation of macroeconomic control and regulation and have produced non-monetary inflationary pressure, so that simple tightening of the money supply is rendered ineffective. Since the beginning of 1994, wage adjustment of public employees, reform of the tax system and the foreign exchange system, and the further expansion of the local governments' power have to some extent created new pressure that pushed prices up. Experiences of Western nations in the 1970's showed that if inflation is due to non-monetary factors, simply continuing the policy of tightening the money supply not only will not produce the desired result but will actually lead to the serious consequence of undermining economic growth. Thus, to deal with China's inflation today, we must suit the medicine to the disease and find an effective remedy.

I. Two Fundamental Facts Proving the Non-Monetary Nature of Inflation

There are two fundamental facts proving that today's inflation is caused by non-monetary factors:

1. Since the decontrol of most product prices, the Central Bank's net currency input (or retrieval) and the change in market prices have moved in opposite directions depending on the type of economic region: Nationwide, in the economically-developed regions, prices have been rising rapidly, but currency issuance has been reduced or more currency has been taken out of circulation; conversely, in the economically backward regions, price increases have been moderate, but currency issuance has increased. Some regions which used to be backward have speeded up their economic development as a result of policy adjustments, and their currency input has also slowed. Basically, inflation began in the economically developed coastal regions and spread to the rest of the country.

2. Since the latter part of 1993, the stock price index in the capital market and the product price index in the goods markets have moved in opposite directions. In a market economy, there is a close relationship between the capital market and the goods market, and money flows freely between the two. So when the quantity of money changes,

it should have the same effect on both markets. Only if wages, interest rates, land rent, taxes, and the cost of resources go up will production enterprises' profit fall while product prices rise, which in turn cause the stock price index to change in the opposite direction to the product price index. Clearly, there is no natural relationship between these factors and the quantity of money.

If non-monetary inflation is not caused by extreme shortage of goods, then it is caused mainly by the government's conduct and by income distribution. In comparing the developed and the backward regions, after the government implemented the budget contracting system, all the developed regions either overtly or covertly adopted some kind of tax exemption and reduction policies and policies to stimulate local investments. This increased local economic vitality, and profit went up, attracting a lot of money from the outside. The influx of outside capital supplemented the lack of local funds, and given the bank's high rates of interest, local bank deposits increased and demand for loans decreased. These led to a reduction in cash input. Accompanying the increase in investments and employment, there was a large influx of labor force, increasing demands in the local markets. When supply cannot increase immediately, there can be a short period of growth-oriented inflation; in particular, there will be tremendous pressure on the agricultural and sideline product markets. When the industrial structure cannot be adjusted in time, the growth-oriented inflation may persist. Things were just the opposite in the backward regions. These regions had enjoyed more preferences in the state's financial allocations, and upon implementing the budget contracting system, there was little room for them to reduce or exempt taxes; a few regions even raised taxes, including collecting all sorts of administrative fees, to meet financial expenses, which added to enterprises' burdens and led to reduced output and outflow of personnel and funds. They had to rely on bank credits to sustain production, and therefore currency issuance increased in the backward regions even though price increases were relatively moderate.

On the premise that the market mechanisms are functioning properly, any income policy that changes society's income distribution inevitably will, due to price rigidity, cause a general increase in product prices when the economy recovers and adjusts itself spontaneously. Income distribution pattern is the share of the national income allocated to each social stratum, and in concrete form, it is manifested in the prices of various types of factors of production. Their long-term trend is determined by even more profound socioeconomic factors, and there is a permanent, stable proportion and structure in every society. Any income policy that aims to change the distribution pattern inevitably will trigger enterprises' spontaneous recovery and adjustment process if it does not change the underlying determining factors at the same time, and given the rigidity of prices, a series of cost shifts will lead to a general increase in prices. Higher cost caused by higher wages, higher interest rates, land rent, taxes, depreciation, and scarcity of resources usually cannot be absorbed by enterprises through technological progress and scientific management, and the only solution is to shift

the cost to the consumers by raising product prices to maintain a stable profit share. If this process is blocked, whether because market demand resists the higher prices or because of the government's administrative orders, the production enterprises' rational response will be to cut production or even stop production, which eventually will bring economic growth to a halt.

II. Causes of Non-monetary Inflation

The fundamental causes of non-monetary inflation are the restructuring of the economic system and the general and substantial rise in the people's income level, which cause a fundamental change in the behaviors of the consumers, enterprises, banks and financial institutions, and governments at all levels and in turn change the micro foundation of macroeconomic regulation and control, rendering the traditional monetary policies and price policies basically ineffective.

1. Restructuring of the financial budget system and the change in government behavior.

The heart of the restructuring of the financial budget system is the delineation of the central and local governments' budgeted revenue and expenditure scopes. After reform, on the basis of differentiating national enterprises and local enterprises, budgets are contracted to control shortfalls. The national enterprises' profit tax is delivered to the Financial Ministry, and local enterprises' profit tax is deemed local revenue. On this basis, a base number is determined for the local government's budgeted revenues and expenditures, and based on that number and on the annual increases, a retention percentage is negotiated between the central and local governments. So long as the allocated percentage is fulfilled, the local governments may determine for themselves the scope of local revenues and expenditures and specific projects they want to undertake. The new system gives the local governments relatively independent interests, which greatly mobilizes their enthusiasm for increasing income and reducing expenditure and for developing the local economies. But while we expanded local government authorities, we failed to build the corresponding balancing mechanisms and unwittingly stimulated their blind pursuit of more and more investments, which has become the primary cause of repeated uncontrolled rates of increase in investments in recent years. Under the old system, the differentiation of enterprises would not have affected investments, because local governments did not have the corresponding authority. But after local governments are given more power, adding new enterprises can increase the number of local tax-paying units, and increasing investment projects can give impetus to enterprises' expanded investments and expand the local tax base. These are ways for the governments to increase local financial revenues. Adding the competition and contention among the regions, it has further stimulated investment expansion, creating the direct cause of price increase. Furthermore, every time the money supply is tightened, to ensure the continued increase in investments, local governments always put pressure on banks, forcing them to increase credit and print more money, thus resisting any attempt to tighten the money supply.

2. Reform and development of the monetary credit system.

Under the old system, banks were government organs, and their absolute submission to the government's administrative orders guaranteed the implementation of the central government's credit plans and its absolute control of the money supply. The one-and-only bank credit system excluded all nonbank loans and debts and also reduced the number of intermediate links, so that the money supply had a more direct impact on prices, which facilitated macro regulation and control and helped the monetary policy achieve the goal of stabilizing product prices. But after more than a decade of reforms and development, today, banking has become a relatively independent industry, and the monetary credit system has undergone fundamental changes. Specialized bank branches and sub-branches have greater autonomy, and when there is a conflict between their own interests and the credit plans, they may readjust their operations to avoid the restrictions and continue to expand credit or even lower their own ability to pay debts to force the Central Bank to increase the money supply. Most newly established commercial banks, urban and rural credit cooperatives, and other savings institutions can launch credit business outside of the credit plan, and the credit plan itself makes exceptions for agricultural purchases and foreign exchange procurements, opening two big loopholes. All these greatly reduce the constraint credit planning puts on currency issuance. Outside of the banking system, direct fund gathering in markets of all sorts and the development of nonbank financial institutions also insert a complicated policy-relay process between the money supply and the targeted macroeconomic variables. They either dilute and offset or intensify and strengthen the impact of the quantity of money on the national economy, so that controlling the money supply still will not allow us to successfully regulate consumption and investment, thus directly undermining efforts to curb inflation.

3. Enterprises' management autonomy and the modern enterprise system:

Under the old system, enterprises' every economic activity had to obey and rely on the central plans as handed down from level to level; they had no power to make decisions regarding production, investment, product prices, and wage allocation. After years of reform, most enterprises have attained at least some management autonomy, and at the same time, they are facing some market pressure. With greater autonomy and driven by profit motive, enterprises are no longer barred from shifting their higher taxes, rent, and interests and so on to product prices. If they are also implementing the welfare policy or increasing income distribution, they can even shift the higher wage cost to the price of products. Even though the market has given impetus to enterprise development, the changeable market also adds to enterprises' risks. Many state-owned enterprises are completely unable to adapt to the market and continue to engage in massive ineffective production; they have inputs but no output, and their demands continue to increase but there is no corresponding increase in effective supply, and so overall market equilibrium is upset, but they still want to shift the value of their ineffective input and waste directly to the prices of marketable goods. Although

the new enterprise system is now written into the official documents, it is still far from actually operational, and so long as this system is not fully operational, there will be absent the mechanisms to adjust the stock of resources, and we can only rely on the incremental resources to improve our situation, indirectly forcing enterprises to expand investment to ease the restrictions imposed by the existing stock of resources. All these are direct factors pushing prices higher, and of course, there is nothing to keep a handful of enterprises from jacking up prices to reap exorbitant profit.

4. Higher income level of the consumers and changes in the spending pattern.

When income was low, the consumers had few choices in how they spent their money. Their income was fixed, and more than 98 percent of their income was spent on basic everyday needs, and they practically had no savings. Currency issuance, meanwhile, was used mainly to pay wages, and therefore there was a stable relationship between the percentages of increase in currency issuance, income, and expenditure and the change in prices. Today, the average citizen's income is several times that a decade ago, and the consumers' behavior has undergone fundamental changes. On the one hand, as income rises, they can better tolerate price increases, and this has made it possible for enterprises to shift their cost-increase to prices, especially the price of basic everyday goods and agricultural products. On the other hand, people also have more choices when it comes to spending. Not only do they have a choice of consumer goods, but they also can choose between current and future consumption. The choice of future consumption means current savings. They can also choose between cash or other types of financial assets depending on the interest rates. The presence of such choices means that enterprises are facing more market risks, and the Central Bank's control of currency issuance and bank credit may turn out to stimulate direct fund gathering in the markets and in turn create many unstable factors affecting the quantity of money, income, consumer spending, and the price level, so that the established proportional relations have lost their basic stability and can no longer guide the functioning of the monetary policy.

5. 1994's New Inflationary Factors.

Four major reform measures were introduced simultaneously in early 1994. They included the adjustment of public employees' salary, merging of the exchange rate tracks, implementation of the classified tax system, and further expansion of local government authority. No doubt these reforms are necessary for the construction of a socialist market economy, but because of the failure to solve some technical problems, their actual implementation has more or less created new upward pressure on prices.

The purpose of the reform of the public employee's wage system is to widen the wage gap in hopes of attracting more qualified people, so as to improve the overall quality of government employees and adhere to the spirit of distribution according to work to make government organs work more efficiently. But under the existing employment setup, wage rigidity prevents any downward wage adjustment, and widening the wage gap can only mean paying higher wages,

and the inevitable result is that all public employees are given raises, and in turn enterprises and departments must pay higher wages. This causes wages to go up society-wide and stimulates total demand on the one hand, and on the other hand, enterprises add the increased wage bill to production cost, creating new pressure on raising prices.

As a result of the merging of the RMB exchange rates and the abolition of the original, rather low, official exchange price, the prices of some imported raw materials have gone up, further giving impetus to the price increase of related products. Although currently the Central Bank has stabilized the market exchange rate at around 8.7:1 US dollar, thus lowering the market risk, because enterprises still face many restrictions when buying foreign exchange for import purpose, black market foreign exchange coupons has risen to around 1.25 yuan, which still puts pressure on the prices of imported goods.

Banks raised their deposit rates in May and July of last year, forcing the loan rates to go up by the corresponding amount. It is estimated that currently, the market rate is above 20 percent. Higher interest rates can play a role in retrieving cash, shrinking credit, and curbing investments in the short-run, but a high rate of interest in the long-run (more than six months) will cause production investments to plummet, leading to economic recession. Given China's current conditions, since the capital market is still not well developed and 70 percent of enterprises are operating with a high debt ratio—some with more than 90 percent debts, chronic high rate of interest no doubt will put unbearable burden on the production enterprises, forcing them to shift the higher cost [to the consumers], which is also a factor contributing to inflation.

The tax system was restructured early this year. The plan is to replace the current budget contract system with a classified tax system as a way to guarantee the state's financial strength and increase the Financial Ministry's regulation and control ability. But because the method of differentiating national enterprises and local enterprises is being kept and the classified tax system has been interpreted simply as delineating different types of taxes as central and local taxes, in actual practice, we must continue to rely on the original method of contracting the budget shortfalls. As a result, although tax collection and administration have been improved, we have not really addressed the core problems

of the tax system, and the scheme of differentiating enterprises and contracting budgets continue to stimulate the local governments' reckless investments. Some provincial and municipal governments even transfer and allocate enterprise goods and materials directly in order to get their projects started, resulting in huge enterprise defaults and adding to enterprises' invisible tax. Looking back at the history of more than a decade of restructuring of the tax system in China, it is fair to say that every successful reform has inevitably involved the reduction of taxes and yielding of profit. Only the reform early this year was premised upon keeping the total tax revenue unchanged. The result is that in the first quarter of this year, the rate of industrial growth fell sharply compared to last year's during the same period while government tax revenues increased 21.4 percent (JINGJI RIBAO 19 Apr 1994). The only explanation is that enterprises' actual tax payment has increased. The production enterprises shift the higher taxes to their product prices, and this must be the reason for the more-than-usual increase in product prices in the first quarter.

The increased power of local governments is demonstrated by the greater degree of freedom in checking and approving local construction projects, checking and approving local financial institutions, and in expanding direct local fund gathering channels and so on. These reforms can greatly increase the local governments' enthusiasm and accelerate the development of the socialist market system in China. But because there is no corresponding budget-constraining mechanism, there are many defects. In order to increase income tax revenues generated by local enterprises, local governments may lower their standards for approval and over-stimulate investment, and there is nothing to stop them. When all local governments take this approach, it makes the central government's macroeconomic regulation and control tasks even more difficult, undermining its efforts to curb inflation.

III. Relying Simply on the Tight-Money Policy To Cure Non-Monetary Inflation Can Undermine Economic Growth

Western nations pursuing monetarist policies learned a profound lesson in the 1970's: If there is systemic (supply-side) factors contributing to inflation, simply controlling the quantity of money will only undermine economic growth. We will come to the same conclusion if we analyze China's economic statistics:

Table 1. Rates of Increase in Prices, Money Supply, and Economic Growth (unit: percent)

Year	1985	1986	1987	1988	1989	1990	1991	1992	1993	Average
M0	24.71	23.34	19.38	46.72	9.84	12.81	20.20	36.45	35.3	
M1	5.84	28.05	16.22	22.48	6.31	20.17	23.15	35.73	21.6	19.95
M2	17.03	29.27	24.22	22.38	18.32	27.99	26.52	31.28	24.0	24.56
P	8.8	6.0	7.3	18.5	17.8	2.1	2.9	5.4	13.0	
Y	12.8	8.1	10.9	11.0	4.0	5.2	7.7	12.8	13.4	

M0 = cash issuance; P = retail price index; Y = gross national product

M1 = M0 + enterprises' demand deposits + rural collectives' demand deposits + institutional deposits

M2 = M1 + enterprises' time deposits + deposits enterprises themselves raised for basic construction + personal savings + other savings

Note: The relevant data are supplied by People's Bank's 1993 Annual Report and ZHONGGUO XINXI BAO 28 Feb 1994.

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The table shows the relevant data for the period 1985-1993. The largest increases in currency issuances were 49.5 percent (1984), 46.72 percent (1988), and 36.45 percent (1992). The rate of increase [in M0] in 1993 was 35.3 percent, which was smaller than in 1992, and the increases in the other two money supply indicators, M1 and M2, were close to their historical averages. Thus, there was no abnormal increase in the money supply in 1993. In comparison, the price index in 1993 was the second highest, just below the peak years of 1988 and 1989, and if we look at the price indices of the 25 large and medium-sized cities, the magnitude of increase was actually highest in years. If we look at 1985 and 1989 when credit was the tightest, the increase in M1 was only 5.84 percent and 6.31 percent respectively, much lower than the average of 19.95 percent in other years, but the rise in the price indices in those two years were second only to that in the peak year of 1988. These facts prove that there is no steady relationship where the changes in the quantity of money and prices always move in the same direction; we can only ascertain that there are non-monetary factors contributing to inflation.

If we draw a line in the years when the increase in M0 was highest, we can divide the national economy into three periods. 1984-1987 marked the first period. The increase in M0 shot up to 49.5 percent [in 1984] and then leveled off in the next three years, but the price indices and the GNP indices went up and then down and then up again and did not coincide with the change in the money supply indices. 1988-1991 marked the second period when M0 soared to 46.72 percent and then plummeted in the next year and gradually went back up in subsequent years. The change in the GNP indices coincide with this trend, but the price indices remained high in the first two years and fell in

the next two years, which was inconsistent with the money supply trend. The third period began only two years ago (1992-1993), and in 1992, the increases in the three classes of money and the GNP indices were substantial, but the increase in the price index was lower than the historical average. Credit was tightened in mid-1993 but was eased again at the end of the year. For the year, the increase in M0 was about the same as in 1992, but the price index went up 13 percent. The analysis of these periods shows that it is difficult to achieve our goal and may even undermine economic growth if we simply rely on a tight-money policy to cure inflation.

If we compare the data before and after 1988, prior to 1988, it is difficult to discern any kind of regular pattern between the changes in the money supply and prices and the GNP. But beginning in 1988, the change in the money supply began to coincide with the change in the GNP, but there was still no consistent relationship with the change in prices.

Further analysis of the elasticity of M0's in response to product prices and the GNP will make our conclusion even more evident. First, we must define the relevant elasticity indices:

$E^{M0}_Y = (\Delta M0/M0)/(\Delta Y/Y)$ = the elasticity of money supply in response to change in the GNP;

$E^{M0}_P = (\Delta M0/M0)/(\Delta P/P)$ = the elasticity of money supply in response to change in prices; M0/P = real cash balance after discounting the effect of prices;

$E^{M0/P}_Y$ = elasticity of real currency balance in response to change in the GNP. Table 2 shows the results of computation based on data for various years:

Table 2: Elasticity of Money Supply's Responsiveness to Changes in the Price Level and GNP

Year	1985	1986	1987	1988	1989	1990	1991	1992	1993	Average
1. E^{M0}_Y	1.93	2.88	1.78	4.25	2.46	2.46	2.63	2.85	2.63	2.65
2. E^{M0}_P	2.81	3.89	2.65	2.53	0.55	6.1	6.97	6.75	2.72	3.88
3. M0/P	14.62	16.36	11.25	23.8	-0.72	10.49	16.78	29.46	19.7	
4. $E^{M0/P}_Y$	1.14	2.02	1.03	2.16	-0.18	2.02	2.18	2.30	1.47	

First, let us look at the first row. Between 1985 and 1988, the numerical values of the elasticity of money supply fluctuated sharply in response to changes in the GNP, but after 1989, the numerical values appeared very stable and were very close to the average value of 2.65, which means that for every 2.65 percent change in the money supply there was a 1 percent increase or decrease in the GNP; there is a high correlation between the two. Now let us look at the second row. The change in the money supply in response to change in the money supply is highly elastic and very unstable, but there is no set pattern. The third row is the rate of increase in the real cash balance. This is primarily a response to changes in the interest rate and the national income. In 1989 and 1993, a guaranteed-value interest rate policy was implemented, and the rate of increase [in the money supply] clearly slowed. The last row shows the elasticity of the real currency balance in

response to changes in the GNP, and in most years, the numbers lie between 2.02 and 2.30. The narrow range further proves that there is a stable correlation and unanimity between the quantity of money and the GNP. Based on this, we can estimate that, other things being equal, for every 1 percent increase in the GNP, the money supply should increase by slightly more than 2 percent.

Summing up the above, the result of our statistical analysis is very clear: 1) There is nonmonetary inflationary pressure, and it gained momentum after 1988; 2) Given this premise, to continue to rely simply on a tight-money policy to curb inflation may seriously undermine economic growth; 3) Because of the change in the microeconomic foundation, macroeconomic regulation and control will become even more difficult, and we must adopt even more forceful policies to curb inflation.

IV. Some Policy Suggestions

Upon summing up the lessons learned from the monetarist policies of the 1970's, in the 1980's the Western nations generally began to attach importance to policies that regulated the supply-side. Primarily, they utilized policies to cut taxes, lower interest rates, and increase technological input to regulate distribution, lower cost, and ease inflationary pressure that laid at a deeper level, and the results have been outstanding. Learning from their experience and planting a foothold on China's own economic situation, we have the following choices in policies to curb the non-monetary inflation in China today:

1. We can set up regional macroeconomic regulation and control mechanisms in the 25 large and medium-sized cities, replacing the current goal of achieving 9 percent economic growth with the "goal of keeping price increases below 6 percent" and set up some mechanisms to restrain the local governments. The merits of this scheme are: a) the price index is thoroughly above-board which is easy to supervise, and at the same time it is an index that has nothing to do with the level of economic development and can easily be implemented nationwide. b) It can truly stop inflation from spreading from region to region. c) It is something the local governments can do. For example, they can control the rate of increase in local investments, accelerate the development of transportation and communications and build warehouses, and allocate and transfer resources for enterprises and increase input in the market-basket projects, so as to put more strength in curbing local inflation. d) It can keep the local governments from recklessly collecting fees and increasing enterprises' burdens and can encourage them to accelerate the pace of enterprise reform.

2. The central and local governments must implement the classified tax system thoroughly to replace the current method of just differentiating national enterprises from local enterprises. At the same time, the universal tax system should be popularized, and we should make tax collection and administration even more above-board by strengthening social supervision. The thorough classified tax system must remove the boundart between national enterprises, local enterprises, and individual taxpayers and let the central and local governments share the income tax and other types of tax revenues. For example, with regard to the 15 percent income tax, the first 10 percent of tax revenues collected from the tax-paying units should be delivered to the finance ministry; the remaining 5 percent should be deemed local revenue, so as to increase local enthusiasm in collecting and administering taxes. This can be very effective in constraining local governments who set low standards in checking and approving enterprises and start up new projects recklessly to increase investments. It can also prompt the local governments to strengthen supervision over enterprise management. The universal tax system requires every citizen and institutional legal

entity to fill out an annual income report and tax form. The tax form issued by the tax department should clearly detail the pertinent tax regulations, including reductions, exemptions, and collection, and the tax form should be delivered to every citizen and institutional legal entity periodically, replacing today's practice whereby an invoice is sent out only at tax time. This reform helps to make the citizens more conscious about paying taxes, strengthens social supervision, and reduces tax loopholes.

3. We should further lower the income tax rate and incrementally, steadily lower the deposit rates. At the same time, with the local people's congress's approval and upon reporting to the central authorities, we should allow local governments to add or remove local tax categories and allow them to take local macroeconomic situations into consideration to organize the relevant parties to set appropriate local deposit rates. The merits of this measure are: a) It can lower the tax content and interest cost hidden in product prices and help enterprises to lower prices and increase sales skillfully to increase market supply and curb price increases. b) It gives local governments the proper means to balance local financial revenue and expenditure, put them on the correct path and block the evil way while not leaving them unrestrained. c) Local governments can, to some extent, utilize interest rate policy to regulate local demand for funds. d) It helps the large cities to build international financial institutions.

4. Governments at all levels must streamline their organization, attract economic management experts, and drastically reduce the number of ordinary office workers and administrators. At the same time, we should rely on legislation to strengthen the government's economic management functions and solve the low efficiency problem in government.

5. The central bank must accelerate the reform of the monetary policy and set up an all-encompassing financial supervision system while accelerating the specialized banks' conversion to the shareholding system.

6. We should accelerate enterprises' reorganization under the shareholding system and the establishment of a modern enterprise system. We should build new market mechanisms, so that the existing stock of resources can be redistributed through the exchange of property rights, so as to optimize industrial organization and increase economic efficiency.

Whether at home or abroad, non-monetary inflation is a serious obstacle to economic growth. In the 1980's, some major countries with a market economy began to pay close attention to and were successful in curbing this kind of inflation. China's non-monetary inflation is linked to systemic factors, which makes it more difficult to deal with, but so long as we continue to make promoting economic growth our goal, we cannot overlook the importance of dealing with non-monetary inflation.

Close Monitoring of Fixed Assets Investment Viewed

95CE0029A Beijing JINGJI GONGZUO TONGXUN
[ECONOMIC WORK NEWSLETTER] in Chinese
No 16, 30 Aug 94 pp 22,23

[Article by Cao Hua (2580 5478), State Planning Commission: "Analysis of Investment During the First Half of 1994"]

[FBIS Translated Text] Growth of Investment in Fixed Assets in China Today

1. **Aggregate:** Investment in fixed assets totaled 1.1829 trillion yuan in 1993, up 50.6 percent from the same period in 1992. (After deducting price factors, the actual working increase was 22 percent.) Such a high growth has been rare in recent years.

For the period January through May 1994, the cumulative investment in fixed assets of state-owned units from the beginning of the year grew 34.2 percent over the same period in 1993. This was also the lowest monthly rate of increase since 1993.

2. **Make-up of Investment:** Of the total 1.1829 trillion yuan invested in social fixed assets during 1993, state-owned units invested 832.1 billion yuan, up 57.8 percent; collective units invested 209.2 billion yuan, up 53.9 percent; and city and country individual investment totaled 141.6 billion yuan, up 15.8 percent.

During 1993, state-owned units made 70.4 percent of the total investment in social fixed assets, investing 464.7 billion yuan in capital construction, 219.2 billion yuan in renovation and transformation, 113.8 billion yuan in the construction of commercial housing, and 34.4 billion yuan in other. These investments accounted for 55.8, 26.3, 13.7, and 4.1 percent of the total investment of all state-owned units in 1993. This was a respective 1.3 and 4.1 percentage point decline, a 4.1 percentage point rise and a 1.4 percentage point decline in percentages over the same period in 1992.

Of the cumulative 204.41 billion total investment since the beginning of the year by state-owned units for January through May, 118.18 billion yuan went for capital construction, 45.04 billion yuan went for renovation and transformation, 31.75 billion yuan went for commercial housing, and 9.44 billion went for other investment. These investments accounted for 57.8, 22, 15.5, and 4.6 percent of the total investment of all state-owned units. This was a respective 0.1 percentage point decline, a 1.2 percentage point decline, a 3 percentage point rise, and a 1.8 percentage point decline.

To summarize the above, even though the overly brisk trend toward increase in total investment in fixed assets nationwide during the first half of 1993 was brought under control, the structure of investment did not change substantively. In particular, during the period January through May 1994, state-owned unit investment in the construction of commercial housing, which increased 124.9 percent in 1993, rose 3 percentage points over the

same period in 1993 as a percentage of state-owned cumulative investment in fixed assets for the same period. Moreover, during January through May 1993, when real estate and development zone investment was "hot," this percentage rose 2.7 percentage points over the same period in 1992.

Effect on Price Rise of the Increase in Investment Since 1993

The several overall indices of macroeconomic price increase have all risen since 1993, largely because of the strong rise in the price indices for construction and packing materials, fuel, and foodstuffs. Specifically, the mean value of the price index increase for industrial goods such as construction and packing materials and fuel was more than two times the overall price index increase for the same period. After subtracting currency factors, it was the abnormal, demand-driven rise in prices of intermediary inputs that mostly reflected the upward trend. Skyrocketing domestic prices during 1993 demonstrated the overly brisk investment in fixed assets.

Not only did this increase in investment, which was checked only to rebound strongly for a short period and become too brisk, create imbalance between supply and demand in the nation's construction market, but also led to the large scale importation of construction materials such as processed steel. This led, in turn, to a steady slide in the renminbi foreign exchange rate, which propelled a rise in domestic market prices.

During June and July 1993, governments at all levels conscientiously carried out a series of CPC Central Committee policies for increasing macroeconomic regulation and control, strongly regulating and controlling the too great increase in investment in fixed assets at that time. As a result, the cumulative growth of investment in fixed assets, which had gone on since the beginning of the year, steadily declined for five months in a row after reaching the highest point for the year in June.

Despite the marked downturn in the degree of increase in investment in fixed assets since January through May 1994, the rise in prices has remained at a fairly high level. During May 1994, the city and countryside cost of living index for the country as a whole was 21.3 percent higher than during the same period in 1993, and retail prices nationwide were 18.9 percent higher than during the same period in 1993. This was quite a long way from the goal of macroeconomic regulation and control. The country's overall price index remains fairly high today; therefore, control over total investment in fixed assets is a matter that cannot be regarded lightly.

Development of the Economy and Control of Prices Requires Revamping of the Investment Structure]

Seizing opportunities to move ahead with steady development of the national economy in order to bring down the still overly high overall price level requires strict control over total investment in fixed assets during the second half of 1994, and strict control over the beginning of work on

new projects, maintaining the seriousness of applicable policies inaugurated at the beginning of the year. Inasmuch as the overall price index has not yet declined, it is especially necessary to prevent the investment in fixed assets craze from setting off a demand-pulled skyrocketing of the prices of intermediate inputs, and causing a leap-frogging of the overall price level that leads to another serious situation of unstable macroeconomic growth.

In addition, it is necessary to advance steady development of the national economy, particularly during the present period when China's economy is making a transition from the former predominately labor-intensive light industrial growth to technology-intensive and capital-intensive heavy industrial growth in which substantive growth of the national economy depends more on investment. Therefore, while strictly controlling the total scale of investment in fixed assets and maintaining necessary investment growth, concentrating limited energies on appropriate increase in the intensity of investment in technological transformation projects and capital construction projects that make better use of existing plant, which have a great bearing on economic growth, holds particularly great significance for sustained, rapid growth of the national economy. Specific recommendations are as follows:

1. **Optimize the Investment Structure, Emphasizing Return on Investment** First, the opportunistic and destructive investment in real estate projects, which are not much related to short-term growth of economic returns, must be further reduced, the emphasis of real estate development and construction channeled toward genuinely solving the problem of increasing housing for medium and low income people. Conditions must be created for the orderly and gradual commercialization of housing to put the construction and turnover of housing into a benign cycle.

Second, the competition among jurisdictions to mount infrastructure projects, beginning new undertakings capriciously must be resolutely halted. When every jurisdiction mindlessly duplicates projects, this creates a shortage of limited funds extremely artificially, thereby setting off macroeconomic instability. Even though this does not lead immediately to a total funds shortage in today's relatively stable macroeconomic climate; nevertheless, it is recommended that limited resources be applied to the technological transformation of enterprises having good market prospects to improve use of their existing plant, and to increase investment in pillar industries to promote the sustained, healthy growth of the national economy. This is because, from a short-term returns from investment standpoint, since the completion of work on ordinary infrastructure projects only creates a certain level investment climate locally, or further improvement of the local investment climate, but cannot rapidly produce tangible goods that create effective supply to balance domestic market supply and demand, or that can enter the international market to earn precious foreign exchange to support the country's economic growth. Furthermore, investment funds are used in a scattered way for such projects, which is also detrimental to the future need to concentrate energies on the development of pillar industries in the national economy.

2. **Optimum Selection of Investment Projects, Paying Close Attention to the Economies of Scale** Diligent implementation of national industrial policy when mounting new operational projects will certainly have to meet the objective requirements of large scale socialized production. The emphasis will have to be on starting from a high point, pursuit of mass production, and making fullest use of the advantages that the economies of scale provide, thereby spurring improvement of the quality and upgrading of the structure of China's national economy. Since China is shaping huge and open markets, we must make use of all favorable factors to the maximum extent possible for rapid and resolute creation of effective demand in order to concentrate strength on spurring sustained, rapid, and healthy development of the national economy.

China is currently steadily enhancing and improving macroeconomic regulation and control. It is actively moving ahead with further implementation of various reform measures. We must clearly realize, particularly during this period when reform of the investment of capital and reform of policy and commercial investment channels have not yet been completely ironed out or made fully operational, that it is impossible to rely solely on enterprises themselves for investment in major commercial projects having a certain scale of production that are able to promote economic growth. It is suggested that key enterprises in certain industries be given a certain amount of financial autonomy as a transitional measure to enable these key enterprises to obtain rapid financial support without losing time so that they can mass produce hot selling products and lower costs according to economic law, thereby truly raising the industrial production concentration ratio, and spur optimization of the industrial structure, and the economic structure as well.

Economist Zhang Zhuoyuan on Corporate Law, State Control

94CE0783B Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese No 32,
15 Aug 94 pp 7-8

[Article by Correspondent Hu Hsiao-yu (5170 2556 3768) and Special Reporter Tso Chien-lung (1563 1696 7893): "Renowned Economist Zhang Zhuoyuan (1728 0587 0337) Declares that Smooth Implementation of the Corporate Law Requires Simultaneous Government Delegation of Authority"]

[FBIS Translated Text] The country's first "Corporate Law" went into effect formally on 1 July. In this connection, Professor Zhang Zhuoyuan, director of the Industrial Economics Institute of the Chinese Academy of Social Sciences praised the law as a major event in China's enterprise reform, and a major event in reform of China's economic system.

At the same time, Professor Zhang Zhuoyuan said solemnly that implementation of the "Corporate Law" shows the government's determination to establish a modern enterprise system and to found a socialist market economy system. However, if implementation of the "Corporate Law" focuses solely on the role of enterprises, ignoring the

role of government, it will probably face hard going. This is because implementation of the law requires the concerted cooperation of government departments. Therefore, smooth implementation of the corporate law requires simultaneous government system reform.

Professor Zhang Zhuoyuan graduated from the South Central Finance and Economics Academy in 1954. For the past several decades, he has intensively studied China's economic development. He is rather well versed particularly in political economics, price studies and market studies. In 1990, he was hailed a young expert who has made an outstanding contribution at the national level, and he twice received the Sun Zhifang (1327 3112 2455) scientific treatise award in economics. His main works number 15, including *Value, Prices, Costs, and Profits in a Socialist Economy*, and *Socialist Price Theory and Price Reform*, and he has published more than 300 treatises and research reports. In 1994, he left the position he has held for more than a decade as director of the Finance, Trade and Economics Institute of the Chinese Academy of Social Sciences to become director of the Industrial Economics Research Institute where he immediately applied himself to problems in the development of China's industrial economy. In response to the correspondents' request, Zhang Zhuoyuan discussed his own views about problems requiring attention in the "Corporate Law" implementation process.

A Suitable Carrier

Professor Zhang Zhuoyuan said that founding of a modern enterprise system is an important part of a socialist market economy system. Its key component is a corporate system in which limited liability companies and joint stock limited liability companies are the main form. This provides a rather clear-cut development orientation for improving the organizational system of state-owned large and medium size enterprises, and for finding a relatively suitable means of melding large and medium size state-owned enterprises into the market economy.

He believes that the main difference between the use of the corporate system method to reorganize state-owned large and medium size enterprises and former enterprise reform measures lies in enterprises not returning to the old road of contracting. This is a historical advance. He said that the past more than a decade of Chinese enterprise reform has not greatly changed enterprises' operating mechanism. This is partly because enterprises have gone round and round with the contract system for a long time. Contracting has bound enterprises hand and foot. Implementation of the "Corporate Law" plays a role in guiding, spurring, and supporting development and reform of large and medium size state-owned enterprises.

However, in putting the "Corporate Law" into effect, what is to be done about the difficult problem of government interference? If this problem is not solved, smooth implementation of the "Corporate Law" will encounter difficulties. China's economic reforms began in the early 1980s. Since then, 10 different enterprise law systems have been inaugurated one after another, including "Interim Regulations on State-Owned Industrial Enterprise Staff Member

and Worker Congresses," "Interim Regulations on the Work of Plant Managers in State-Owned Industrial Plants," "Interim Regulations for State-Owned Industrial Enterprises," and "Interim Regulations on Industrial Enterprises Under the System of Ownership by the Whole People." These systems embrace state-owned, collective, privately owned and foreign owned enterprises. They cover a wide range. However, why is it that after so many years of enterprise reform, results do not meet expectations. It is because there have been too many bosses involved in the process of putting them into effect. These legal systems have been artificially distorted.

Apply the Same Determination Used in Merging Exchange Rates

Zhang Zhuoyuan maintains that transformation of government's function is essential. The trading of authority for money has to be halted. Government must apply the same determination it used in merging exchange rates to the streamlining of the government mechanism. After exchange rates were merged, many people feared that chaos might ensue. However, results achieved after 5 months of reform suggest that it has been the most smoothly implemented of the series of economic reforms inaugurated since the beginning of the year.

He emphasized that reform provides long-term benefits. It is for the sake of these long-term benefits that government agencies in charge must give up present benefits. This is the only way to get healthy development of the economy. If some government agencies hold fast to their authority because their own vested interests are being "damaged," this is bound to have a direct adverse effect on enterprise reform.

In this connection, Zhang Zhuoyuan spoke with strong emotion about how, during a recent survey, one local economic committee leader said straight out that he will decide what enterprises may produce and not produce. The big boss mentality continues extremely fierce. What the big boss says goes in every case. As a result, they frequently make off-the-top-of-the-head decisions. Although enterprises have begun to be built, they are in debt, and they carry burdens. This is not just the case in certain places and for certain people. What good prospects for development do enterprises have under these circumstances? One authoritative survey report shows that in 60 percent of 370 stock share system enterprises surveyed in early 1994, the chairman of the board was elected by a shareholder's meeting. However, 40 percent of chairmen of the board, and 34.4 percent of general managers were appointed by government authorities. Therefore until government system reform is intensified, implementation of the "Corporate Law" will not be as smooth as it seems, and progress in reforming China's enterprises will be slower.

On the subject of government interference, Zhang Zhuoyuan suggested the possibility of using "buy-outs" to change government meddling. He said that it cannot be denied that the ingrained model shaped in development of the economy during the past several decades (government authorities being in charge), and ingrained behavior (the big boss mentality) cannot be stopped simply by saying

stop. In addition, one must also realize that there are really quite a few experts in government agencies in charge. They rose through the ranks from grassroots level cadre, to plant manager, to leaders in government agencies. Although they may have a very officious manner, they are no greenhorns. Possibly these people might be "bought out" by hiring them as advisors to corporation boards where they can make suggestions and think of ways to operate and develop the corporation. Their remuneration should be in the form of wages, the entrepreneurs playing the main role in the enterprise. They could continue to play a role in this way. This is one quite feasible solution.

Need to Draw Three Boundary Lines

When the reporters asked what problems should be solved first after the "Corporate Law" goes into effect, Professor Zhang Zhuoyuan said that the first problems in need of clarification are as follows: in which industries are enterprises suited to government operation as sole proprietorships; in which industries are enterprises suited to the government holding shares; and in which industries are enterprises suited to being operated first as monopolies with the transfer of some equity rights later on.

Zhang Zhuoyuan explained that China has so many industries and enterprises, some of which should be operated as state sole proprietorships—coinage, military ordnance, cutting edge technology, and nuclear industries, for example. The industries in which the state should hold shares are in the petrochemical, railroad, posts and telecommunications, and communications fields. Speaking about which enterprises should be operated as monopolies in the beginning, equity rights being transferred later on, Professor Zhang said that South Korea's experiences should be looked at. South Korea has a large steel mill in which the government invested during the early phase of its construction. After the mill was making substantial returns, the government sold its equity rights in it to develop other industries. This had a snowball effect on the development of quite a few concerns. As to means of developing other medium and small concerns, Zhang Zhuoyuan believes that civilian operation, leasing, or auctioning might be used. The greater the number of forms, the greater room for development.

Run Pilot Projects First, Gradually Spreading Out

Chronic illnesses plaguing the development of state-owned large and medium size enterprises that both the government and experts see rather clearly are: indebtedness, heavy burdens, and serious personnel redundancy. Just what can be done to solve these problems? Zhang Zhuoyuan said as follows:

In order to solve the state-owned large and medium size enterprise problem of large numbers of separated and retired personnel, and heavy burdens, state-owned large and medium size enterprises having more than 10,000 employees should run pilot projects for reorganization to the corporate system. From net assets remaining after deducting liabilities from fixed assets, some money should be obligated as share capital, dividends from this money used to fund the pensions and medical treatment expenses

of separated and retired staff members and workers. This is the method that both the Nanjing Panda Electronics Group and Wuhan Steel are now using. Results have been pretty good. Pilot project might be run in concerns in which conditions are ripe. Might it not be possible to convert bank loans into equity rights in state-owned concerns in which indebtedness is a headache? This would invigorate the development of these enterprises and generate economic returns for them, while the banks would gain substantial profits. This is a workable solution.

Outright buy-outs might be used to solve the redundant personnel problem, a lump sum paid them so that they can find their own way of making a living. The method used in Vietnam holds special significance in this regard. Several years ago, Vietnam had 12,000 state-owned enterprises, very few of which produced real economic returns. After the Vietnamese government made up its mind to adopt a mandatory buy-out policy, employees finding their own way of making a living, employees who returned home used the money that the government provided to broker small business deals or go into business, making a pretty good living. After several years effort, Vietnam has only 7,000 state-owned enterprises today; the market in which they compete is larger, and their vitality is greater. Should not our government consider using this same method? It should decide to obligate several hundred billion yuan to the "peaceful removal" of redundant personnel, allowing them to go their own way, the state concentrating its energies on the development of sole proprietorships and large companies in which it holds shares. In this way, the pace of national economic development can certainly be speeded up.

Economic Laws are Irresistible

At the conclusion of the interview, Professor Zhang Zhuoyuan specially emphasized that one tendency must be watched closely once state-owned large and medium size enterprises become corporate institutions. Professor Zhang provided some figures. He said that a survey of 370 firms that had switched to the share system showed that 24.7 percent felt that the enterprise had changed fundamentally, 53.7 percent felt that the enterprise had changed very greatly, and 19.6 percent felt that the enterprise had changed somewhat. This shows that after so many years of reform, of China's enterprises, the orientation of the share system is truly workable. However, this does not mean that another form of iron rice bowl [guaranteed employment] has been served up in the wake of reorganization to a corporate system.

He emphasized that the corporate system is no substitute for effective management, nor can it replace efforts to pursue returns. The consequences of poor company operation and ineffective management are bankruptcy. Even though the United States is so economically developed, its corporate bankruptcy rate is 1 percent each year. Some concerns develop and others decline. For some to live and others to die is a normal economic development law. China's large and medium size state-owned concerns must face this reality squarely, constantly seeking their own optimum position in market development.

Analysis of Development of Shareholding Enterprises

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[MANAGEMENT WORLD] in Chinese
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[Report on questionnaire poll by entrepreneurs of the Chinese Entrepreneurial Investigation System; Advisors: Sun Shangqing (1327 1424 3237), Wang Mengkui (3769 1125 1145), Chen Qingtai (7115 3237 3141), Liu Hongru (0491 7703 0320), and Hong Hu (3163 5706); Poll directors: Guo Zhenying (6753 2182 5391), Wu Tianlin 0702 1131 2651), Wei Dong (5898 2639), Fan Fuchun (5400 4395 2504), and Li Kemu (2621 0344 4476); Questionnaire designers: Ding Baoshan (0002 1405 1472), Wang Peirong (3769 1014 2837), Zhang Wenkui (1728 2429 7608), Li Lan (2621 5695), and Li Hua (2621 5478); Report writers: Liu Li (0491 0500), Wang Liyan (3769 4539 1750), Chen Quansheng (7115 0356 3932), Lei Shijun (7191 0013 0193), Zhang Wenkui, Wang Peirong, Zhang Jinghua (1728 2529 5478), Chen Zhong (7115 6850), Li Lan, and Li Hua; Data processors: Li Shuli (2621 3219 7787), Li Chunwei (2621 2504), Zhang Zhenyu (1728 2128 1342), Zhang Tai (1728 3141), Liu Yong (0491 0516), and Bian Haiguang (6708 3189 0342): "An Investigation and Analysis of China's Shareholding-Enterprise Development"]

[FBIS Translated Text] China's experiment in upgrading enterprises to shareholding began in 1984, it now has a history of nearly a decade. What successes have this decade of effort brought to China's upgrading to enterprise shareholding? Have we achieved our original intention and purpose? What problems still exist? An accurate understanding and grasp of these issues will be of key significance for the government management sector in drawing up policies and setting the next reform steps, as well as for enterprises that have or are preparing to upgrade to shareholding in grasping our reform direction.

So the State System-Reform Commission's Production System Office and the China Securities Oversight Commission's Department of Listed Companies has jointly established the Chinese Entrepreneurial Investigation System with the State Council Research Office's Industry and Communications Office, the State Economic and Trade Commission's Enterprise Office, the China Business Management Association's Research Department, and the State Council Development Studies Center's GUANLI SHIJIE journal, which jointly conducted the first large-scale questionnaire poll of shareholding enterprises throughout China from December 1993 to May 1994.

The poll was aimed at enterprises throughout China that have organized into limited liability companies, with the questionnaires filled in by their legal representatives. By

18 February 1994, we had received back 371 valid questionnaires, containing over 55,000 polling data.

1. The Basic Status Quo of China's Shareholding Enterprises

Of the 371 valid samples in this poll, oriented-fundraising companies accounted for 292, or 78.7 percent, while public-fundraising companies made up the other 79, or 21.3 percent, including 62 listed companies, or 78.5 percent of the public-fundraising companies and 16.7 percent of the samples. Of the listed companies, 37 were listed in Shanghai, 22 in Shenzhen, and three in Hong Kong. As to the times of application for upgrading to the shareholding system, the earliest applications for upgrading to shareholding were made in 1982, accounting for 0.9 percent. The most listing applications were in the 2 years of 1992 and 1993, making up respectively 54.3 percent and 33.2 percent. As to the listing times of the listed companies, the earliest listing was in 1990 for an enterprise listing in Shenzhen of only one company; the most listings were in 1993, of 31 companies.

This data shows that China's upgrading to enterprise shareholding developed gradually along with the intensified development of economic reform, reaching a high tide in the 2 years of 1992 and 1993. This shows that as reform has intensified and the reform goal model of a socialist market economy has been set, an enterprise system of shareholding suited to the market-economy system has become our key model for enterprise-system reform.

1. The Regional and Industrial Distribution of Shareholding Enterprises

The sample enterprises in this poll were distributed in the 29 provinces, municipalities, and autonomous regions throughout China, concentrated mostly in coastal and certain other economically more developed regions, with the 12 provinces and municipalities of Beijing, Shanghai, Tianjin, Guangdong, Jiangsu, Jilin, Liaoning, Shandong, Zhejiang, Hunan, Hubei, and Hainan accounting for 72.3 percent of the sample enterprises, while the seven provinces and regions of Shaanxi, Gansu, Ningxia, Yunnan, Guizhou, Qinghai, and Xinjiang accounted for only 5.4 percent. This distribution state of sample enterprises is basically consistent with that of China's existing shareholding enterprises. This shows the imbalances in China's regional economic development and enterprise distribution, as well as the disparity among regions in enterprise-system reform progress.

According to the method of differentiating shareholding-enterprise industries designated by the State System Reform Commission, the sample enterprises are distributed mainly in manufacturing, commercial service, and real estate and public utilities, making up respectively 35.8 percent, 22.0 percent, and 12.9 percent, or 70.7 percent together (Table 1).

Table 1. The Industrial Distribution of the Sample Enterprises (%)

Industry	Distribution	Industry	Distribution	Industry	Distribution
Farming and Sidelines	1.9	Communications, Transportation, and Posts and Telecommunications	4.6	Recreation, Sports, and Health	
Mining	0.5	Commerce and Service Trades	22.0	Broadcasting and Electronic Education	0.8
Manufacturing	35.8	Real Estate and Public Utilities	12.9	S&T Service	1.6
Construction	2.7	Banking and Service Trades	3.0	Other	14.7

As to the industrial distribution shown in Table 1, our shareholding enterprises are concentrated in industries with better efficiency and higher profits, while the deficient and basic sectors in our national economic development, such as transportation and communications, and mining, have very few shareholding enterprises. This shows on one hand that our selection of experimental shareholding enterprises and our poll sampling may contain certain errors; on the other, it also shows that for our shareholding upgrade to succeed and attract shareholder investment, it will have to show considerable investment returns. Obviously, manufacturing and commercial service trades have certain advantages, while deficient sectors in urgent need of development, due to our pricing system and other historical factors, are unable to provide satisfactory investment returns to shareholders, so find it hard to attract them, and find it relatively harder to upgrade to shareholding.

2. The Share Makeup of Shareholding Enterprises

The shareholders in China's shareholding enterprises are now differentiated by status as holders of state, corporate,

individual, or foreign-invested shares. This poll shows that of the various types of shares in the sample enterprises, state shares make up 33.8 percent, corporate ones 45.2 percent, individual ones 19.4 percent, and foreign-invested ones 1.6 percent, with state and corporate shares totalling 79.0 percent. As most corporate shares are publicly owned ones, it can be held that in China's current shareholding enterprises, publicly-owned shares are absolutely dominant.

3. An Assessment of the Economic Efficiency of Shareholding Enterprises

In contrast to the year before upgrading to shareholding, the sample enterprises in the year after upgrading to shareholding showed great improvements in overall labor productivity, per capita profit and tax generation, return on sales, rate of profit on capital fund, and enterprise per capita wages (See Table 2). This shows that shareholding enterprises have a positive impact in raising enterprise economic efficiency.

Table 2. The Efficiency Improvement for Shareholding Enterprises (%)

	Overall Labor Productivity	Per Capita Profit and Tax Generation	Return on Sales	Rate of Profit on Capital Fund	Per Capita Wages
Overall	57.3	85.2	49.2	39.3	44.0
Listed Companies	47.3	84.5	66.4	31.9	37.5
Unlisted Companies	60.0	85.4	46.2	46.2	45.3
State Reorganized Companies*	61.0	87.8	49.1	42.7	40.9

*State reorganized companies are joint-stock companies reorganized from former state enterprises.

Comparing the various types of shareholding enterprises, listed companies showed the greatest improvement in return on sales, but the least improvement in rate of profit on capital fund and per capita wages; unlisted companies ranked first in rate of profit on capital fund, as well as showing the greatest improvement in per capita wages; shareholding enterprises reorganized from former state enterprises ranked first in the two areas of overall labor productivity and per capita profit and tax generation.

This shows that state enterprises have the greatest potential for improvement of labor productivity, higher than the average for enterprises upgraded to shareholding; listed companies did best in controlling wage costs, showing that under dual pressure from shareholders and stock markets,

listed companies have to make efforts to control costs and increase profits, which is also a real expression of the conversion of enterprise operating objectives; unlisted companies saw higher per capita wage growth than listed ones, showing that the difference in outside oversight has a key impact on the selection of operators and operating goals in joint-stock companies.

II. Upgrading to Shareholding and Converting Enterprise Operating Forces

One of the basic goals of upgrading enterprises to shareholding is to convert enterprise operating forces. The poll shows that shareholding has a great impact on converting enterprise operating forces.

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1. The General Judgment of the Impact of Shareholding on the Conversion of Operating Forces

To learn the basic impact of upgrading to shareholding on the conversion of enterprise operating forces, this poll asked those polled to make a general assessment of the change in enterprise operating forces from before upgrading to shareholding to afterwards. We found that 24.7 percent of enterprises hold that their enterprise operating forces underwent a basic change after upgrading to shareholding, with 53.7 percent noting a great change, and 19.6 percent experiencing some change, but only 2 percent holding that there was no or basically no change. The high percentage holding that enterprise operating forces underwent a great change shows fully that the general judgment of shareholding enterprises as to the impact of upgrading to shareholding on the conversion of enterprise operating forces is affirmative.

2. The Implementation of the 14 Autonomous Rights Granted to Shareholding Enterprises

To better assess the impact of upgrading to shareholding on the conversion of enterprise operating forces, we did a special poll on the implementation of the 14 autonomous rights granted to shareholding enterprises. In contrast to the results of the first comprehensive poll of Chinese entrepreneurs (abbreviated as the "last poll") done in 1993 by the Chinese entrepreneurial system (For an analytical report on the first comprehensive poll of Chinese entrepreneurs, see GUANLI SHIJIE No 6, 1993.), this poll shows a far greater correlation between the implementation of the 14 autonomous rights granted to shareholding enterprises and overall

enterprise conditions. The last poll showed the implementation rate at over 80 percent for only three autonomous rights, or operating decisionmaking power, product sale authority, and commodity purchasing authority, with an implementation rate between 50 percent and 80 percent for five, or product pricing authority, retained fund budgeting authority, personnel management authority, wage and bonus distribution authority, and internal organ establishment authority, and an implementation rate of less than 50 percent for six, or investment decisionmaking power, assets disposition authority, affiliation and merger rights, labor hiring rights, foreign trade rights, and assessment refusal rights. It is not hard to see that the implementation rate for the key autonomous rights was very low. But this poll of shareholding enterprises shows an implementation rate of over 80 percent for as many as nine autonomous rights, including the key one of investment decisionmaking power. It also shows an implementation rate of 50-80 percent for three, or assets disposition authority (54.0 percent), affiliation and merger rights (58.1 percent), and product pricing authority (73.0 percent), with an implementation rate lower than 50 percent for only two, or foreign trade rights (25.4 percent) and assessment refusal rights (19.0 percent). But despite the implementation rates being lowest for these two rights, their possession by shareholding enterprises was still far better than the overall enterprise situation in the last poll, with their implementation rates both up more than 10 points.

As to the number of rights possessed, shareholding enterprises with relatively good or good implementation accounted for 80.2 percent, nearly double that of the last poll's 41 percent (See Table 3).

Table 3. The Possession of the 14 Rights (%)

	Poor	Relatively Poor	Average	Relatively Good	Good
Number of Rights Possessed	Less Than 3	4-5	6-8	9-11	More Than 12
Overall	4.0	2.7	13.1	42.6	37.6
Listed Companies	1.6	1.6	12.9	50.0	33.9
Unlisted Companies	4.5	2.9	13.2	41.1	38.3
Last Poll	7.4	13.8	37.8	32.9	8.1

This shows that of the reform styles for most enterprises, the shareholding reform was a great advantage in the areas of implementing enterprise autonomous rights and speeding up the conversion of enterprise operating forces. But the overall implementation was sharply higher than for the average enterprise, with the implementation of key rights, such as investment decisionmaking power and assets disposition authority, also up sharply, fully showing the advantage of the shareholding reform.

Comparing listed to unlisted companies, whether in the implementation of each right or the overall possession of all 14 rights, there was no clear difference, with unlisted companies even better off than listed ones in some areas (such as the percentage of enterprises possessing more than 12 autonomous rights). This shows that whether a company is listed or not is certainly not the crux of implementing enterprise autonomy and converting enterprise

operating forces. The crux is rather the upgrading to shareholding per se. We also noted that listed companies implemented foreign trade rights clearly better than unlisted ones (with the implementation rate being 40.36 percent for listed companies, but only 22.3 percent for unlisted ones), with the cause of this phenomenon very likely being that most listed companies were large enterprises in all regions and industries, so that they already had a certain amount of autonomy advantage in the area of import-export business.

3. The Choice of Operating Goals by Shareholding Enterprises

The effective conversion of enterprise operating forces depends largely on the changes in enterprise operating goals.

This poll questionnaire asked those polled to rank their choices of operating goals, with the cumulative frequency of the first three rankings for operating goals being respectively to ensure shareholder earnings (83.5 percent), to establish a good enterprise image (47.1 percent), and to increase employee income (39.0 percent). But in the last poll of entrepreneurs, the cumulative frequency of the first three rankings for operating goals by the average enterprise were respectively to raise employee income (77.4 percent), to fulfill contract duties (51.8 percent), and to increase sales profits (39.0 percent).

Comparing shareholding enterprises to the average enterprise, operating goals have sharply changed from an emphasis on higher employee income to higher shareholder earnings. This change is a key sign that enterprises have genuinely become independent players in a market economy. On market economy terms, as the operating goal of a modern enterprise ought to be the maximization of shareholder (owner) interests, this change in the operating goals of Chinese shareholding enterprises is of extremely key significance. In China, the striving to maximize shareholder interests by shareholding enterprises certainly does not mean ignoring state interests or contributing less to the state. As this report noted in analyzing the share makeup of China's shareholding enterprises, publicly-owned shares make up nearly 80 percent of those in China's shareholding enterprises, most of which publicly-owned shares are state or state corporate shares. So the largest shareholder in China's shareholding enterprises is the state, with the greatest beneficiary of the maximization of shareholder earnings also the state. It is only when operators genuinely care about shareholder assets and earnings that the erosion of state assets and poor operating efficiency can finally be genuinely improved.

4. The Choice of Work Priorities by Shareholding Enterprises

As to work priorities, the top three rankings of work priorities by the operators of shareholding enterprises in this poll were respectively to seek new growth opportunities (45 percent), to harmonize the relations among all parties (15.2 percent), and to improve interior management (13.6 percent). But in the last poll, the top three rankings of ordinary enterprises were respectively to seek new growth opportunities (28.0 percent), to improve management within enterprises (26.0 percent), and to increase sales (24.1 percent). Comparing the two polls, ordinary enterprise work priorities are more decentralized, showing quite sharp differences among enterprises, with respective difficulties. But in this poll, shareholding enterprises showed greater consistency in work priorities, with seeking growth opportunities being the first work priority for nearly one-half of shareholding enterprises, showing that the clearer seizing of opportunities in a market economy by shareholding enterprises is a key term for ensuring existence and development. And comparing listed to unlisted companies, listed companies pay more attention to seeking growth opportunities, showing that listed companies face greater stock market pressure, so needing to pay more attention to their own development.

5. The Establishment of Decisionmaking (Leadership) Forces by Shareholding Enterprises

The concentrated expression of the establishment of decisionmaking forces by shareholding enterprises is the form of producing and appointing high-level managers, such as board chairmen and presidents. When designing the questions for our poll questionnaire, to reflect the feature of enterprise conversion of operating forces, we emphasized the relations between the election or appointment of boards of directors and companies' (formerly enterprises') higher-level responsible departments, with the results as shown in Table 4. The relations in this table with higher-level responsible departments are three: 1. Election (appointment) first, and then approval by the responsible department; 2. Determination by the responsible department first, and then election (appointment) by the board of directors; 3. Direct appointment by the responsible department, with approval by the board of directors.

Table 4. Producing Company Board Chairmen and Presidents (%)

	Board Chairmen		Presidents	
	Elected by Board of Directors	Involving Higher Levels	Appointed by Board of Directors	Involving Higher Levels
Overall	60.5	39.5	65.6	34.4
New Companies	62.6	37.4	70.4	29.6
Reorganized Companies	59.5	40.5	63.5	36.5
State Reorganized Companies	55	45	58.6	41.4
Nonstate Reorganized Companies	78.4	21.6	82.4	17.6

Table 4 shows that while over 60 percent of enterprises produce board chairmen and presidents through legal procedures, abnormal interference in shareholding enterprises by so-called higher-level responsible departments (shareholding enterprises should not have higher-level responsible departments) is quite severe, with more than 30 percent of shareholding enterprises not genuinely producing their own board chairmen and presidents in the standard form, but rather being subject to control by "responsible departments." Meanwhile, Table 4 also shows that in the process of producing company board chairmen and presidents, as to the degree of influence by higher-level responsible departments, new companies are less affected than reorganized ones, with companies reorganized from nonstate enterprises less affected than ones reorganized from state enterprises. This shows that the more connection with traditional mechanisms [forces], the more difficulty in establishing the new system.

6. The Relations Between the Old and New Management Systems

In a poll of the forces-conversion situation of listed companies conducted jointly by the State System Reform, Securities, and Economic and Trade commissions in August and September 1993, it was found and noted that there was a shareholding-reform problem in the relations between the "three new boards" (the board of directors, the board of supervisors, and the shareholder meeting) and the "three old committees" (the Party Committee, the labor union, and the employee congress).

In this poll, we asked questions about "the relations between the party-organization system within companies and the decisionmaking system of companies" and "the inconsistency between company shareholder interests and employee interests." We found that over 92 percent held that the relations between the party system and the company decisionmaking system were very or relatively harmonious, with only 11 percent holding that the inconsistency between shareholder and employee interests was very or relatively obvious. This shows that while the conflict between the "three new boards" and the "three old committees" will certainly become a problem that will be hard to avoid, it is not yet a severe one. This may be due to most of our current shareholding enterprises having been formed through the reorganization of former state enterprises, with quite close personnel dovetailing between the "three new boards" and the "three old committees," so that the conflict is not yet obvious.

7. Key Problems Encountered by Shareholding Enterprises in Converting Operating Forces

While shareholding enterprises have made sharp changes in the area of converting enterprise operating forces in contrast to enterprises of other forms, the poll also shows that shareholding enterprises are still encountering much resistance in the area of normal operations. For instance, only 24.7 percent of enterprises actually hold that their operating forces have undergone a basic change, while only about 60 percent of shareholding enterprises have real autonomous rights in producing their highest-level managers. So why do 53.7 percent of shareholding enterprises hold that their operating forces have undergone only a great change instead of a basic change? Why do 21.6 percent of shareholding enterprises hold that their operating forces have undergone only certain changes or even no change at all? Why are nearly 40 percent of shareholding enterprises subject to irregular interference by their "responsible departments" in the area of producing their high-level managers? And why is it invariably so hard to implement the right to refuse assessments? The poll shows that these problems are due to the severe lag in the conversion of government functions.

In response to the question about reform priorities to promote the better operation of shareholding enterprises, the top three choices were converting government functions (62.4 percent), reforming our property rights system (15.1 percent), and making our market system sounder (4.9

percent), which was consistent with the 1993 "comprehensive poll of Chinese entrepreneurs" conducted by this system.

As to the matter of whether shareholding enterprises have responsible departments, most Chinese shareholding enterprises, even the most standard listed companies, still have "mothers-in-law" in charge (See Table 5).

Table 5. The Relations Between Shareholding Enterprises and Responsible Departments (%)

	Overall	Listed Companies	Unlisted Companies
Have Administrative Responsible Departments	56.2	55.7	56.1
Have No Administrative Responsible Departments, but Have Departments on Which Their Registration Depends	19.7	23.0	19.3
Have No Administrative Responsible Departments or Ones on Which Their Registration Depends	24.1	21.3	24.6

But this reality of being topped by responsible departments is certainly not one that enterprises willingly accept. When asked further whether shareholding enterprises need administrative responsible departments or ones on which their registration depends, most responded that there was no need for them (See Table 6).

Table 6. Is a Responsible Department Needed? (%)

	Overall	Listed Companies	Unlisted Companies
Yes	22.5	18	23.3
No	39	42.6	38
No, but No Alternative	32.5	32.8	32.8
It Does Not Matter	6	6.6	5.9

The pressing calls by enterprises for the conversion of government functions show that while shareholding enterprises have made great progress in the areas of converting enterprise operating forces and implementing their autonomous rights, they remain restricted by government organs at all levels in a great many areas. Meanwhile, the vast majority of shareholding enterprises certainly do not need the "transmission, help, and attachments" of responsible departments, meaning that their acceptance of management by responsible departments is simply forced on

them. This once again shows clearly that the difficulty and focus of China's enterprise reform is still the conversion of government functions, the key to which is separating the government's administrative function from its state-property ownership function, and fully clarifying the limits of authority of government administrative organs and ownership functional bodies. Of the current various types of interference in enterprises by government functional organs, some are irregular interference, while others are actually the exercise of legitimate ownership rights (such as intervention in certain key enterprise decisions). But as government administrative authority and ownership rights are merged, with the various lines of authority blurred, this on one hand makes it easy for certain government-sector personnel to exploit their authority for a number of reasons to engage in irregular interference in enterprises, which enterprises have no effective means of resisting; on the other, it leaves enterprises regarding certain regular intervention as irregular interference, making it hard for the state to implement its ownership rights. So until this administrative framework of administrative authority merged with ownership rights is fundamentally changed, enterprises will be necessarily dependent on and afraid of the government, leaving regular and irregular government interference in enterprises unavoidable. As long as it is hard for shareholding enterprises to operate normally, it will be impossible to establish a modern enterprise system.

In addition, we have also noted that in contrast to the last poll, shareholding enterprises place the property rights system first much more often, showing that entrepreneurs are paying increasing attention to the property rights issue as shareholding enterprises are getting directly involved in property rights matters in their operations, meaning that shareholding enterprises are making more pressing demands for property rights reform than ordinary ones.

III. The Organization and Establishment of Shareholding Enterprises

China's enterprise shareholding reform that began in 1984 and after many years of twists and turns began to get onto the right track in 1993. The key sign of this is that State Council-related departments, such as the State System Reform Commission, have been issuing since mid-1992 a series of related shareholding-reform documents, providing a uniform standard (even though it still awaits further elevation to more effective legislation) for reform

work that has been underway in recent years in a decentralized way everywhere throughout China, but was dependent on inconsistent local legislation. Shareholding reform experiments have made marked progress, which is an established fact. But another reality is that shareholding experiments are in urgent need of standardization, which has always been a widespread problem. In China at present, the organization and establishment of shareholding enterprises is a key link in such standardization, so this poll has paid considerable attention to it.

1. The General Evaluation of Our Enterprise-Shareholding Reorganization

Table 7. The General Evaluation of Reorganization (%)

	The General Evaluation	By Reorganized Former State Enterprises
Standardized, Reached Goals	43.4	38.5
No Major Problems, Basically Reached Goals	49.6	51.9
More Problems, Reaching Only Some Goals	6.4	9.1
Not Standardized, Almost Not Reaching Goals	0.6	0.5

This poll shows that the polled shareholding enterprises generally approved of the reorganization, with more than 90 percent holding that the reorganization was basically standardized to essentially meet reorganization goals, while less than 10 percent held the opposite view. Taking a closer look, as pre-reorganization conditions differed, the general evaluation by various enterprises also differed. Slightly less reorganized former state enterprises approved, which was obviously linked closely to state-enterprise forces and the greater reorganization difficulties.

2. The Meeting of Shareholding-Reorganization Objectives

The standardization of enterprise shareholding reorganization depends on one hand on complete external terms (legislation and intermediary bodies), and on the other on factors within enterprises. And of the many internal factors, the most crucial are enterprise expectations, motivations, and objectives in upgrading to shareholding.

Table 8. The Objectives in Upgrading to Shareholding (First-Choice Frequency %)

	Overall	Listed Companies	Unlisted Companies	State-Reorganized Companies	Last Poll
To Convert Operating Forces	47.8	48.3	47.9	61.4	43.0
To Raise Funds	31.4	36.7	30.0	27.6	16.9
To Delimit Property Rights	7.6	11.7	6.8	2.9	8.0
To Strengthen Enterprise Cohesion	3.2	0.0	3.9	1.9	31.3

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This poll shows (Table 8) that the top three choices for shareholding-reorganization objectives by shareholding enterprises were respectively to convert enterprise operating forces, to raise funds, and to delimit property rights relations. But the top choice of only 3.2 percent was to strengthen enterprise cohesion, which ranked sixth among the eight options. But in the last poll of entrepreneurs, the top three choices were respectively to convert enterprise operating forces, to strengthen enterprise cohesion, and to raise funds.

Contrasting the two polls, to convert operating forces remained the top system-reform objective, showing that enterprises place great expectations on upgrading to shareholding to convert their operating forces. But there was a sharp change in the other rankings. In the last poll, enterprises (mostly nonshareholding enterprises) also put quite high expectations on upgrading to shareholding to strengthen enterprise cohesion, leaving to raise funds ranking only third. But this poll shows that the frequency of those making efforts to raise funds their key system-reform objective was up sharply, while the expectations that it would strengthen enterprise cohesion was down sharply. The possible reasons for this change are:

1. Fundraising per se is a key reason why enterprises upgrade to shareholding, with listed companies in particular having greater fundraising advantages. So of the enterprises that actively pursue and achieve the upgrading to shareholding, it is not strange that a considerable number of them are aimed mainly at fundraising. But an overemphasis on fundraising undoubtedly dilutes the forces-conversion function of upgrading to shareholding.

2. As to this poll's subjects, the setting of objectives for upgrading to shareholding was an after-the-fact judgement. While strengthening enterprise cohesion was once a fine aspiration and expectation of many people for the shareholding-upgrade process, this objective per se lacks immediacy and feasibility. So while the expectation that employee shareholding would strengthen enterprise cohesion was premised on employee unions paying attention to share appreciation, and thus to enterprise operations, to give shareholders and enterprises a common fate, the current problem is that if employee-held shares cannot be transferred or sold, their appreciation earnings cannot be realized (As the cash-dividend yields of China's enterprise shares are now very low, with yields still far lower than bank interest even judged by the very low share-issue price for employees at a premium rate, dividend earnings cannot become a key factor to attract employee shareholding.), leaving share appreciation just an illusion. But if employees were allowed to sell the shares they hold, to realize their appreciation earnings, employees selling their shares would at the same time be giving up their shareholder status, thus no longer paying attention to the enterprise from a shareholder perspective, leaving the fine aspiration that the upgrading to shareholding would strengthen enterprise cohesion to come to nothing. Shareholding enterprises have thus discovered through practice that upgrading to shareholding certainly does not effectively strengthen enterprise employee cohesion, so have made certain revisions of their original intentions in an

after-the-fact judgement of their shareholding-upgrading objectives, which is absolutely understandable.

Comparing listed to unlisted companies, listed companies named fundraising as their objective more often than unlisted ones, but strengthening employee cohesion less often. This shows that as listed companies are obviously more successful in fundraising than unlisted ones, they named fundraising as their objective more often. But as stronger share circulation weakens the role of strengthening employee cohesion, listed companies also had less expectations that the shareholding upgrade could strengthen enterprise employee cohesion.

3. Finally, as shareholding enterprises reorganized from former state enterprises named operating forces conversion most as their objective, this shows that state enterprises have more problems with their former organs, so have more urgent aspirations about converting their operating forces.

3. The Positive Impact of Listing Company Shares

Once shareholding enterprises meet their goal of fundraising, most of them take up the new goal of striving to get their shares listed. What is the impact on companies of reaching this goal of getting listed? The top four responses from listed companies to that question in this poll were respectively: 1. That it strengthens company restraint forces, at 51.6 percent; 2. That it raises company fame, at 27.4 percent; 3. That it eases shareholder pressure on companies for bonuses, at 14.5 percent; 4. That it stimulates employee initiative, at 4.8 percent. From this we can reach the two conclusions that: 1. The stronger restraints that listed companies are subject to help to standardize their behavior; 2. Shareholding reorganization and share listing do not play an obvious role in strengthening employee cohesion, which corresponds to our above analysis.

4. Key Problems Encountered in Reorganization

Both newly organized joint-stock companies and those reorganized from former enterprises need to do a lot of hard work to deal with a host of problems. So our poll questionnaire listed a number of problems encountered in reorganization. The top three problems named respectively were that existing legislation on the shareholding upgrade is uncoordinated and incomplete, at 46.0 percent; that it is hard to evaluate assets and delimit property rights, at 24.6 percent; and that examination and approval formalities are tedious, at 11.4 percent. From fourth place down, all items were named less than 10 percent of the time. This choice sequence was consistent for all types of enterprises, showing that sound and complete legislation and resolving the property rights issue are the keys to better shareholding upgrades.

5. Dealing with Enterprise Nonoperating Assets

Under our traditional economic mechanisms, most of China's large and midsize enterprises were characterized as "small societies." So how to deal with nonoperating assets in the shareholding-reorganization process became a thorny problem encountered. Our poll found that shareholding companies in the midst of reorganization dealt

with this problem mainly in the three ways of converting them into shares, returning them to independent units outside of the company, and compensated use through special corporate management.

Most enterprises adopted the methods of converting to shares or compensated use through special corporate management, making up respectively 30.9 percent and 53.6 percent. While these two methods are conservative ways of dealing with the matter, and easy to do, the conversion to shares is nonstandard, and unfair to new shareholders. Meanwhile, as listing nonoperating assets as share capital is bound to lower the enterprise capital profit rate, it has a bad impact on the enterprise image. And while the second method [returning them to independent units outside of the company] is the most standard method of thorough enterprise reorganization, it is harder and faces greater resistance. So that most enterprises choose the first and third methods shows that all are acting quite cautiously on this matter. In addition, in the choice of methods one and three, the ratio was 25.4 : 58.6 for state-enterprise reorganization, but 51 : 34.7 for nonstate-enterprise reorganization, with the sharp disparity meriting further exploration of its causes.

6. The Examination and Approval of Listed Companies

Since the state adopted in 1992 the method of setting annual listed-share quotas with planned assignment by region, the examination and approval of listed companies has become a matter of concern to all. This poll asked questions about listed-company quota control, examination and approval terms, and examination and approval formalities, finding a clear difference between the views of listed and unlisted companies (See tables 9-11).

Table 9. State Quota Control of Listed Companies (%)

	Listed Companies	Unlisted Companies
Needing Further Strict Restriction	73.3	10.1
Needing Eased Restriction	19.8	65.3
Maintain Current Quotas	11.7	11.1
No Restriction	5.2	13.5

Table 10. Examination and Approval Terms for Listed Companies

	Listed Companies	Unlisted Companies
Quite Rational	34.4	14.4
No Uniform Standards for All Administrative Regions	24.6	38.9
Terms Are Harsh, but Sustainable	21.3	21.1
Too Arbitrary, and Hard To Understand	16.4	21.0
Other	3.3	4.6

Table 11. Examination and Approval Formalities for Listed Companies

	Listed Companies	Unlisted Companies
Quite Rational	24.6	7.5
Some Are Tedious, but Sustainable	42.6	26.8
Some Are Tedious and a Waste of Time	18.0	17.5
Too Little Transparency and Absolutely Dependent on Man-Made Action	14.8	46.1
Other	0.0	2.1

As to the cause of this obvious disparity, it is hard to reach a definite conclusion by relying on this poll's results alone. But a possible reason is that as listed and unlisted companies (all currently unlisted Chinese companies are striving to get listed) have different standings, mindsets, and interests, their responses to questions naturally differed. From the perspective of maintaining their high stock market price position to make it easier to further distribute shares to attract funds, as listed companies hope to control the listing rate of unlisted companies, they took a more positive approach to the many current methods of listing control, while unlisted companies have the opposite interests, so took a more negative approach.

7. Evaluating the Services of Intermediary Agencies

The services of intermediary agencies in the organization of joint-stock companies are of crucial importance. Intermediary agencies are the main force in implementing the principles of "openness, fairness, and impartiality," with their services needing to ensure company interests and efficiency, as well as to protect the rights and interests of company outside shareholders, in addition to creating a good socio-economic climate for the normal and sound development of shareholding reform (See tables 12-15).

Table 12. The Evaluation of Assets-Assessment Agencies (%)

		Satisfactory	Average	Unsatisfactory
Work Quality	Listed Companies	55.7	39.3	4.9
	Unlisted Companies	45.0	51.9	3.1
Fees	Listed Companies	25.4	50.8	23.7
	Unlisted Companies	16.8	53.4	29.8

Table 13. The Evaluation of Accounting (Auditing) Firms (%)

		Satisfactory	Average	Unsatisfactory
Work Quality	Listed Companies	62.3	32.8	4.9
	Unlisted Companies	47.5	48.6	3.9
Fees	Listed Companies	23.7	49.2	27.1
	Unlisted Companies	20.0	50.4	29.3

Table 14. The Evaluation of Law Firms (%)

		Satisfactory	Average	Unsatisfactory
Work Quality	Listed Companies	58.3	38.3	3.4
	Unlisted Companies	36.9	57.1	6.0
Fees	Listed Companies	33.3	43.9	22.8
	Unlisted Companies	19.2	36.3	29.5

Table 15. (The Evaluation by Listed Companies) of Securities Underwriting Agencies (%)

	Satisfactory	Average	Unsatisfactory
Work Quality	47.5	44.0	8.5
Fees	45.0	51.9	3.1

Tables 12-15 show that shareholding enterprises are clearly more satisfied with the work quality of intermediary agencies than with their fees, showing that shareholding enterprises are not yet very accustomed to paying fees to intermediary agencies, as well as that intermediary agencies are still somewhat subject to the fees for their services being out of line with the quality of their services. In addition, as to both work quality and fees, listed companies were more satisfied than unlisted ones. This is a very significant result. As to its reasons, in addition to intermediary agencies treating listed companies slightly more responsibly, might there not be other reasons? For instance, as listed companies can raise large amounts of funds through share listings, the services of intermediary agencies are worth it to them despite the high fees.

IV. Enterprise Shareholding and Stock Rights Transactions

I. Enterprise Operating Achievements and Stock Markets

While share prices ought to reflect a company's operating achievements, with a company's operating quality largely reflected in its share prices, the responses to that question in this poll by listed companies were certainly thought-provoking, with only 42.4 percent holding that there was a

sharp connection between their company's operating achievements and the market prices of their company's shares, 39 percent holding that there was some connection, and 18.8 percent holding that there was no connection at all. This shows that the market prices of the shares in China's current joint-stock companies are largely affected not by the company's operating achievements, but rather mainly by factors outside of the enterprise (such as macroeconomic conditions, psychological expectations about policy, and banking speculation), with the recent vicious speculation in individual stocks on the Shanghai stock market being the most recent proof of this. As share prices divorced from company operating achievements weakens the role of the stock market in overseeing and restraining joint-stock companies, allowing listed companies to exploit high-priced stock offerings to raise funds divorced from their achievements and corporate realities, as well as leaving investors acting blindly, letting this go on for long would be adverse to the development of shareholding reform.

2. Individual Share-Offering Premiums and the Company Share-Listing Time-Distribution

While making public share offerings, joint-stock companies often adopt the tactic of a certain amount of premium offerings. Premium offerings not only bring large amounts of funds to companies (with premiums going into a company's legal surplus), but also help to establish a strong corporate image. China now lacks theoretical studies of share premiums, leaving companies offering shares to set premiums based mainly on corporate might, public image, and market supply and demand relations, while taking into account the future secondary-market price situation.

Table 16. Share-Offering Premiums and the Listing-Time Distribution

	Last Half of 1993	First Half of 1993	Last Half of 1992	First Half of 1992
Individual Share Premiums at Time of Issue (Yuan per Share)	4.48	4.31	4.95	4.52
Listing Time Distribution (Enterprises)	24	7	6	4

This poll asked questions about share premiums and listing times, finding the listing distribution for 41 enterprises in the 2 years of 1992 and 1993 as shown in Table 16. Table 16 leaves a conspicuous impression, that the stock market expanded its capacity rapidly in the last half of 1993. But the real situation was that once the state issued its plans for 5 billion yuan worth of listings in 1993, it was the last half of the year by the time most enterprises had completed their reorganization, so that listing pressures were bound to be concentrated in the last half. This result was not without some relation to the low stock-market enthusiasm in Shenzhen and Shanghai since early 1994. As to the share-premium matter, the premiums were

generally in a gradually rising sequence from "issuers to other legal persons to individuals," which was also the result found in this poll.

3. The Status of State Shares and Their Holders

As to the holdings share of state shares in the overall share capital of shareholding enterprises, there are two understandings, of absolute holdings [control] (more than 50 percent), and relative holdings [control] (less than 50

percent, but more than 20 percent or 30 percent). For state shares to make up the largest percentage of the shares in China's current shareholding enterprises is a common phenomenon. But how do entrepreneurs see this? This poll shows that 4.9 percent hold that state shares must definitely make up more than 50 percent, with 40.5 percent holding that they do not necessarily have to make up more than 50 percent as long as they maintain relative control, and the other 54.6 percent holding that this need not be regulated, leaving the percentage of shares as it stands.

Table 17. Who Should Hold State Shares? (%)

	Overall	Listed Companies	Unlisted Companies	New Companies	Reorganized Companies
The State Administration of State Property	30.3	16.9	33.1	28.6	31.1
The Enterprise's Former Administrative Responsible Department	7.2	8.8	7.1	10.2	6.2
The State Property Investment Corporation	31.9	43.5	29.4	37.8	29.7
The State Finance Sector	3.3	2.1	3.7	5.1	2.9
The Enterprise Itself	27.3	28.7	26.7	18.3	30.

The current percentages of state shares in China's shareholding economy are largely determined by historical factors. As to this poll's question about "whether the too high percentage of state shares is adverse to the conversion of operating forces by shareholding enterprises," 21.4 percent agreed or basically agreed. With this order of a high percentage of state shares, as to who should hold state shares, the views of entrepreneurs in shareholding enterprises can be seen in Table 17. That the views on who should hold state shares are inconsistent, is precisely a reflection that state-property operating forces are still under discussion and in a state of uncertainty. In addition, the table shows that when comparing listed to unlisted companies, listed companies prefer holding and management by the State Property Investment Corporation, while unlisted ones favor holding and management by the State Administration of State Property; and when comparing new to reorganized companies, new companies have obviously more rational views, not only showing more preference for the State Property Investment Corporation, but also showing considerably less for holding by enterprises themselves.

4. The Trading of Corporate Shares and State Shares

Table 18. Corporate Shares and State Shares (%)

	Share at Time of Establishment	Share at Time of Poll
State Shares	33.8	32.2
Corporate Shares	45.2	44.5

1. The status quo and change in corporate shares and state shares. For all shareholding enterprises in this poll, the

average share and changes in the holdings structure of corporate shares and state shares are seen in Table 18. Table 18 shows that the share of state shares and corporate shares in the enterprise holdings structure are both down slightly. There is now extremely little legal trading of state shares, with corporate shares also traded and transferred only among legal persons. The major reason for the above-mentioned share decline is that when enterprises expand their shares, most state and corporate shares both renounce their matching-share rights (with very few state shares offered for sale). So how are corporate shares traded? This poll shows that of all corporate shares, 85.9 percent have never been transferred, with 2.8 percent of transfers having occurred on the STAQ system, 1.8 percent on the NETS system, 6.7 percent in the agreement form, and 2.8 percent through other forms.

2. Whether corporate and state shares should circulate. Overall, 35.4 percent hold that circulation should be completely deregulated, with 60.3 percent holding that it could be conditionally deregulated, but only 4.3 percent holding that it ought to be strictly limited. Taking a closer look to compare listed to unlisted companies, listed companies were slightly more cautious on this matter.

3. The relations between the corporate-share market and the individual-share market. China's corporate and individual-share markets are now set up separately, with the pros and cons of this method having always been under debate. This poll found that 7.3 percent of the entrepreneurs in shareholding enterprises hold that the two ought to be rigorously separated, with 57.6 percent holding that they should now be separated but ought to be consolidated in the future, while 35.1 percent hold that there is no need

for them to be separate and that they should be consolidated as quickly as possible. On this matter, listed companies were also more cautious than unlisted ones.

5. Internal Employee Shareholding

Table 19. Views on the Internal Employee Shareholding Percentage (%)

	Overall	Listed Companies	Unlisted Companies
Should Be Less Than 2.5%	2.4	3.8	2.3
Should Be Less Than 10%	21.2	44.6	16.4
Should Be Less Than 20%	21.2	10.5	23.5
Should Be More Than 20%	49.2	30.5	52.9
Unsure	6.0	10.6	4.9

Since May 1993, the pertinent State Council ministries and commissions have issued circulars strictly controlling the scope and scale of internal employee-share offerings, as well as temporarily halting internal employee-share offerings. For the views of the entrepreneurs in shareholding enterprises on the internal employee shareholding percentage, see Table 19.

The data in Table 19 show that as to the internal employee shareholding percentage, while listed companies were slightly more rational than unlisted ones, their view still differed sharply from the pertinent regulations announced by the various State Council commissions. So it seems that as to the matter of internal employee shareholding, there is still a quite heavy standardization task.

6. On the Relations Between the A and B Share Markets

In China's stock markets, the A and B share markets coexist separately, over which there is both theoretical and practical controversy, making this a major problem in the establishment and improvement of China's stock markets. This poll counted the subjective views on this matter, finding that 19 percent hold that the two markets ought to be consolidated as quickly as possible, with 58.8 percent holding that they should be consolidated gradually, and 22.2 percent holding that the terms for consolidation do not yet exist, so that the status quo should be maintained.

7. The Competitive Climate for Shareholding Enterprises

Our investigation of the competitive climate for shareholding enterprises was separated into the two parts of competition among shareholding enterprises and that between shareholding and nonshareholding enterprises. We found that 45.7 percent of shareholding enterprises hold that the competition among shareholding enterprise

is unfair. The major reasons for this injustice were: 1) Enterprise income tax rates were not consolidated (56.1 percent), which obviously referred to the coexistence of the two income tax rates of 15 percent and 33 percent; 2) assets-evaluation criteria were not uniform (16 percent); 3. The actions of the securities management sector were not standard (9.6 percent). As to the matter of competitive fairness between shareholding and nonshareholding enterprises, as many as 51.8 percent of shareholding enterprises held that they had been treated unfairly, with the major reasons also concentrated in three areas: 1) "Certain nonshareholding enterprises enjoy special, preferential policies" (33 percent). 2) The state both takes bonuses and collects taxes from shareholding enterprises, making for heavier enterprise burdens (33.9 percent). 3) "Local protectionism" (13.3 percent). In addition, another factor is that 12.9 percent of listed companies hold that our information-disclosure system makes enterprises reveal too many operating secrets.

The above results show that we particularly need to perfect our market system as quickly as possible, improving our tax policy, changing and abolishing all "preferential measures" in our economic policy that are directed at enterprises of various ownership forms, and opposing local protectionism, to create a climate of fair competition for all types of enterprises.

Provincial

Tax Collection From Hunan Individual Households

94CE0732A Beijing ZHONGGUO SHUIWU BAO
in Chinese 22 Aug 94 p 1

[Article: "Tax Collection From Hunan Province's Individual Households Gradually Increasing"]

[FBIS Translated Text] In recent years, revenue agencies at various levels in Hunan Province have been directing their attention to the rapid development of the individual household economy, and have adopted effective measures to enforce revenue collection from individual households, so that such revenues have been rising yearly. In 1993, the figure broke through the one billion yuan mark for the first time when 1.2 billion yuan was collected for the year. For the first half of this year, 574 million yuan had already been collected, a growth of 25.55 percent over the same period a year ago. At present, revenue from individual household businesses as a proportion of total industrial and commercial revenue has risen from four percent 10 years ago to over 10 percent, realizing its simultaneous growth with the individual household economy.

In the course of the change to a market economy, the Hunan Provincial Committee of the CPC and the provincial government are expected to develop the privately operated individual economy as the new focus of economic growth for the province. A group at the CPC unit at the Hunan Provincial Bureau of Revenue studied the theory of a socialist market economy and summed up the lessons learned from managing and collecting taxes from individual households in the past, to establish overall rules

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for collecting taxes from individual households based on "fair tax responsibility, simplified procedures, and differential treatment to stimulate the development and strengthen revenue collection, in accordance with the law." Taxation departments throughout the province at all levels are to follow these guiding principles so that taxation of individual households will undergo the healthy trend of becoming more regularized and legalized.

To strengthen the establishment of a legal system, the Hunan Provincial Taxation Bureau has summed up its experience with tax collection from individual households over the years, and by using the data from it as the basis, it has prepared a regional set of regulations. Those are the "Regulations for Taxing Individual Households in Hunan Province." These regulations were implemented after their passage by the Standing Committee of the Seventh People's Congress of Hunan Province on 6 January 1993. After the "Regulations" were announced, tax agencies in the province at all levels began to implement the "Regulations" and "The Method of Tax Collection and Management." By following the law strictly, and adhering to the legal scope of the regulations, the tax agencies obtained rather good results. The awareness of individual household businesses in cities and towns was above 95 percent; of those in rural villages, above 90 percent.

At the same time, by using the "Regulations" as a turning point, tax agencies at all levels in Hunan Province were able to set up an effective system of tax collection and management. The bureau adheres firmly to "differential treatment" by effectively managing the big individual proprietors, managing the medium-sized ones, and favoring the small ones. The tax collection procedure takes three forms: collecting revenue following an account inspection, collecting taxes at a fixed rate, and collecting fixed amounts periodically. With respect to the big individual households, classifications standards are set that they follow "Account Management for Individual Industrial and Commercial Households" to set up an accounting system to implement tax payments following account inspection. They cannot be taxed at fixed rates, nor can they file taxes. With respect to individual businesses in the fixed rate and fixed tax groups, the fixed amount of taxes is generally adjusted every six months, and no adjustments are made if business conditions during the tax period are changed very little. One form of the fixed tax is based on a typical estimate which is reported by the individual proprietor voluntarily. That is, it is subjected to democratic evaluation, checked and approved collectively, made public, and after three public announcements, the individual business proprietor is notified for payment of a fixed amount of tax. Another form of the fixed tax is based on trade, location, and class of the business. In 1993, adjustments in the fixed tax category were as high as 94 percent, and the amount of fixed monthly taxes, after adjustment, increased 25.4 percent over the pre-adjustment period.

Perfection and adherence to these systems have helped maintain normal and orderly revenue collection and improved its management. By March 1994, a total of 46,000 individual household businesses in the province

have set up account books, comprising 9.3 percent of individual household businesses subject to taxation. This is an increase of 16.3 percent over the 1992 figure, and it basically realizes in the near future, the goal of 10 percent for standardized management of taxes collected from individual household businesses.

With the rapid development of the individual household economy, management of tax collection from such individually-operated businesses becomes more difficult. In recent years, the tax system in Hunan Province has mobilized forces from several sectors to strengthen tax collection from individual household businesses, and has come up with some beneficial approaches.

One is depending on the power at the grass roots to manage tax collection. A form of "triumvirate" tax management is promoted throughout the entire province. That is, the party leadership is the nucleus, the force of society is the foundation, and various tax agencies make up the framework, in a tax management system where responsibility, power, and benefits come together. At present, at the grass roots below the county level, tax management units have been set up and have begun working on a periodic analyses of changes in revenue sources, ways to resolve problems in tax collection, etc. They are exerting an active effect in strengthening the management of tax collection from individual household businesses.

Second, we must promote a system for agencies responsible for managing the trades and occupations to collect the miscellaneous taxes relevant to the individual household businesses. Collection of such miscellaneous taxes is a difficult task in individual household business tax collection. By developing the strengths of agencies that manage the trades and occupations, and entrusting them to collect this tax can yield better results. In Hunan Province, the tax collection system operates by having the provincial government take the lead in cementing an effective relationship with those agencies concerned with the trades and occupations. After this, an agreement delineating the scope and purpose of their tax collecting duty and authority, rewards and punishment is signed with them, entrusting them to collect the tax. At present, with respect to activities engaged in by individual household businesses such as transportation, cultural activities and entertainment, construction, construction materials handling, mining, labor, real estate, etc. in localities throughout the province, this system of entrusting agencies responsible for monitoring the trades and occupations to collect taxes has been implemented. Taxes collected using this approach comprise 8 percent of the total taxes collected from individual household businesses.

Third, we must establish a system that safeguards the tax collection process. After agreement and approval at all government levels, and support from the public, investigative, and legal sectors, offices of public security services, tax examiner offices, tax courts, etc. are established within the revenue agencies. According to statistics, six public security offices, 14 tax examiner offices, and four tax courts have been established in 14 localities and cities of the province. Another 32 public security service offices,

119 tax examiner offices, and 12 tax courts have been set up in 146 counties and towns (branches). They are the safeguards that assure that the system is set up to handle stepped-up and improved legal enforcement of revenue collection. The timely investigation and handling of illegal cases also assure normality in the tax collection process.

Urbanization To Develop Regional Economy
95CE0002A Chengdu SICHUAN JINGJI RIBAO
in Chinese 14 Sep 94 p 1

[Article by Yang Jun (2799 6874): "Development of Urbanization Will Carry the Regional Economy Along With It: Interview With Zhang Zerong (1728 3419 2837), Director of the Sichuan Academy of Social Sciences' Economic Research Institute"]

[FBIS Translated Text] In 15 years of reform, much has been accomplished in developing Sichuan's economy. Since 1993, the provincial economy has seen especially rapid growth, 12 percent annually. There have also been great changes in its cities and villages (especially those villages which are near cities), with some pillar industries formed.

But since the start of this decade, the pressures on Sichuan's economy have also been considerable. The province's very large population is the principal reason, the original economic base not being up to it. Therefore, how to accelerate Sichuan's economic development has become an outstanding problem. In this, the course of Sichuan's economic development in the 1990s has become a particularly important issue demanding study. In 1992 we proposed a "single line" developmental route, and later on proposed "parallel lines," while someone else suggested a "split and divergent line." In 1993, we proposed a development route of "supporting two cities, developing two wings." Undeniably, these routes are of positive use in the development of Sichuan's economy, but they need some adjusting when viewed from the standpoint of the overall Sichuan economy.

As the developmental route of the nineties, Sichuan's focus should be on urbanized development. This development will be on four levels, encompassing large cities (Chengdu, Chongqing); medium level cities (such as Mianyang and Neijiang); and counties and towns. China is currently in the process of modernization, and urbanization is key to this process, so industrialization and urbanization are linked. Sichuan's economic development should begin with the cities, not the countryside. We should concentrate our efforts on grasping urban development.

Urban development is characterized chiefly by being done along lines or in groups. Sichuan can develop an urban economic belt or urban economic groups, which will then carry along the development of the entire province's economy. If the overall strategy can be adjusted sufficiently, in 10 to 20 years from now Sichuan's economy will go forward smoothly, and not follow a crooked path.

Some counties in Guangdong have issued blue residence cards to people coming to the cities from the countryside (these also give urban residence), concentrating the population in the cities. We feel that Sichuan can adopt this experience. But we should note one thing: that is, we

cannot simply concentrate the population in the cities, rather, we must consider what is best for urban economic development. Moreover, we should consider making the blue residence card something that can be circulated among Sichuan cities. We estimate that this will show the way to converting Sichuan's surplus agricultural labor force of 25 million into an industrial labor force by the year 2000. This is not just a question of transferring population, it is a question of economic development.

The greatest obstacle to urbanized and industrialized economic development in Sichuan is transportation. The most difficult problem now is that while development is needed, capital is in short supply. I feel this can be handled in two ways: one, attract more foreign investment; two, in capital management implement policies which give preference to transportation. At present, Sichuan should stress developing transport along the route of the Changjiang River. The State has proposed a plan for the development of 20 cities along the Changjiang, from Shanghai to Chongqing. Sichuan should make the fullest use of this golden waterway by linking up railways, highways and waterways into a transportation network, developing an urban economy along the route of the Changjiang.

If Sichuan can put sufficient emphasis on its Western plain and along the Changjiang, truly forming an urban economic group, an urban economic network, then Sichuan's economic power will come to the fore, and Sichuan will naturally become the economic leader among China's Western provinces, even become the industrial leader of the Western provinces.

Finance, Banking

Bureau Head: Foreign Exchange Reform 'Success'
95CE0026C Beijing ZHONGGUO XINXI BAO
in Chinese 14 Sep 94 p 2

[Article by own reporter Chen Jing (7115 5464): "Zhu Xiaohua (2612 1420 5478), Director, State Bureau for Foreign Exchange Control, Points Out: Distinct Successes Have Been Achieved in the Reform of China's Foreign Exchange System"]

[FBIS Translated Text] At an international symposium on "China: Its Financial and Economic Growth," held a few days ago in Shanghai, Zhu Xiaohua, vice president of the People's Bank of China and concurrently director of the State Bureau for Foreign Exchange Control, said, the reform of China's foreign exchange control system, effective from 1 January of this year, has been a very distinct success.

Zhu Xiaohua pointed out that the long-term objective of the reform of China's foreign exchange control system is the free convertibility of the RMB. However, the process will be a gradual one, and our short-term objective is to achieve a conditional convertibility of the RMB for regular items. When the exchange rates were equalized this year, the value of the RMB started out at 8.7 to U.S.\$1. The value of the RMB has now stabilized and even gone up somewhat, maintaining a rate of around 8.55 to the dollar.

Zhu Xiaohua revealed, since the start of the year, China's official foreign exchange reserve has greatly increased and

reached \$15 billion by the middle of August. Last year, China absorbed \$26 billion foreign investments, which was an increase of \$15 billion, compared to the beginning of the year. Last year, China absorbed \$26 billion foreign investments, having China rank only second behind the United States among the world's countries importing foreign investments.

Zhu Xiaohua also said, the successful reform of the foreign exchange control system directly favors the foreign trade enterprises. During January to July this year, the total value of China's imports and exports had increased 24.8 percent, compared with the corresponding period of last year; imports increased 19 percent and exports increased 31.2 percent, which reversed the past state of weakness in exports. Export increases had been achieved on the basis of a stable development of the economy, never on the basis of sacrificing domestic markets.

When discussing China's open operations on the foreign exchange market, Zhu Xiaohua informed that during April to August this year the volume of transactions between the designated foreign exchange bank and its clients had reached \$6.82 billion. He said, the success of China's reform of its foreign exchange system is mainly due to an excellent macroeconomic operational environment. Since last year, China's national economy had been effective in its macroeconomic regulation and control, and in the present reform of the foreign exchange system this effectiveness to coordinate and supplement had exceeded whatever it had been during the preceding 15 years.

The present international symposium on "China, Its Financial and Economic Growth," which was jointly sponsored by the Bank of China and OZHOU ZAZHI [EUROCURRENCY] magazine, had in particular assessed investment opportunities in China, and discussions were held on such special issues as the reform of the financial and securities markets, the new financial organization and its specifics, and trade financing. Wang Xuebing [3769 7185 0393], president of the Bank of China, and Lei Zuhua [7191 4371 5478], president of the Chinese Import-Export Bank, attended the meeting, together with representatives of the financial circles from over 10 countries and from within China.

Tax Official Say New Tax System 'Successful'

95CE0026D Beijing JINGJI XINXI BAO
in Chinese 5 Sep 94 p 2

[By own correspondent Huang Yiding (7806 0001 0002): "High-Ranking Official of the State Bureau of Taxation Says: The New Tax System Is Successful Beyond Expectations"]

[FBIS Translated Text] At the high-level international symposium, "The Next Step in China's Reform of the Economic System," Xu Shanda [6079 0810 6671], head of the legislative section in the State Bureau of Taxation pointed out: The excellent results of the new tax system, now in operation for somewhat over six months, exceed all original expectations. The new tax system, which has now been given a legal framework, with uniform legal tax provisions, and which embodies a fair system of taxation,

has, for the first time after so many years of China's reform, achieved the simultaneity of economic development and increased tax revenue. This clearly indicates that the plan for reform of the tax system has been fully consistent with China's national condition.

Section chief Xu believes that the operation of the new tax system has essentially accomplished the objective of placing tax collection on a legal basis and of unifying the legal provisions of taxation. The capriciousness in the way tax laws had been enforced in the past has been largely eliminated. It has also greatly reduced expectations of preferential tax treatment among enterprises. Most entrepreneurs have begun to make policy decisions in conformity with the norms of the tax law. Progress in the direction of greater fairness in the tax burdens has also been beyond expectations, and as such very beneficial in reducing the tax burdens within the market economy, beneficial also with regard to the irrational guidance that had been given to the direction of enterprise investments, now rather letting the enterprises make their own business decisions altogether according to market conditions. The new tax law very effectively streamlined tax categories. Local taxes have not yet been reformed, but this reform will now also be vigorously taken in hand in the course of the simplification of the tax system. Besides that, we have already been initially successful in a sensible determination of the respective jurisdictions of central and local governments, and in doing away with the policy of granting tax reductions or tax exemptions to particular enterprises. This has had the distinct effect of concentrating tax authority, and as a result the scale of tax revenue is now essentially being determined by the tax tariff fixed by law. After April or May this year, some local governments were up to no good, but that was mostly put right, and put right most speedily. The central authorities are pursuing macroeconomic regulation and control much more forcefully than before the reform of the system. According to initial computations, tax revenue, as affected by the present reform, was to remain more or less on the same level, but it actually increased by 30 percent during the last half year, of which about half was due to the economic development. If we compare this with the state of affairs during the last few years when tax revenue increases were left far behind the pace of economic developments, the situation has indeed been greatly turned around and indeed for the better. The proportion of revenue of the central government is now computed at 57 percent, while it had only been 52 percent at the beginning of the year.

Section chief Xu believes that there are still some problems in this year's tax reform that must be attended to:

First, supervision and control in the handling of invoices for value-added taxation is inadequate, and tax evasions still occur by means of invoices presented for value-added taxation. If this problem is not effectively resolved, it can possibly spell failure for the reform of the tax system. The State Tax Bureau and other departments are therefore presently adopting forceful measures, including monitoring with computers, involvement of judicial agencies, etc.

Second, the problem of delineating tax authorities; the most serious dispute is over whether the local governments shall have legislative power in matters of local taxation. In the

opinion of the State Tax Bureau there are two types of local taxes, one type is subject to central government legislation and one type is subject to local government legislation.

Third, the problem of setting up an organization for state tax collection and separately a local organization for local tax collection. The all-China conference on financial and tax affairs had definitely decided that the separate establishment of these tax organs shall be completed before 30 September. After this will have been done, the administration of state taxes and relevant law enforcement will be conducted with much more severity, and this will reduce cases of tax evasion. At the same time, the local tax bureaus will more energetically and more effectively pursue the collection of tax in such tax categories that still show potential as larger tax sources, so as to increase local tax revenue.

Foreign Debts To Reach \$100 Billion in 1994

94CE0748A Hong Kong TANG-TAI [CONTEMPORARY]
in Chinese No 8, 15 Aug 94 pp 42-45

[Article by Wang Hsien-yu (3769 6343 0147): "China's Foreign Debts To Reach \$100 Billion"]

[FBIS Translated Text] PBC Vice President Chen Yuan [7115 0337] points out in his *China Financial Prospects* that China's foreign debt balance is likely to top \$100 billion in 1994. The future growth of China's foreign debt is causing widespread concern among figures in all walks of life.

China's policy of taking on foreign debt over the last dozen years or so has achieved obvious results, having become an exceptionally important factor in its economic growth. Such borrowing has partially resolved China's domestic problem of a shortage of construction funds, upgrading "bottleneck" industries that have long limited China's economic growth, spurring the growth of related domestic industries, and importing much overseas advanced technology, equipment, and management expertise.

China's Debt Situation in Recent Years

Year	*Foreign Debt Balance	*Gross Exports	Ratio of Foreign Debt** to Exports (%)
1985	160	274	58.4
1986	215	309	69.6
1987	302	394	76.6
1988	400	475	84.2
1989	413	525	78.7
1990	525	621	84.5
1991	606	718	84.4
1992	693	850	81.5
1993	836	918	91.1

*Unit: \$100 Million

**Debt is generally calculated as the ratio of mid and long term debt to current accounts (trade and nontrade), slightly different from the calculation method used here.

China's Foreign Debt Balance Is Over \$80 Billion

By the end of 1993, China's foreign debt balance had reached \$83.6 billion, up more than 20 percent from the end of 1992, and is likely to top \$100 billion in 1994, having entered since 1991 a sustained four to six-year repayment peak.

Such too brisk foreign debt growth momentum is putting aftermath pressure on size control and loan repayment.

As to per capita foreign debt, while China's foreign debt size still leaves China a low-debt country, its foreign debt growing faster each year than its economy is already putting potential pressure on its foreign debt management and loan repayment. Since the beginning of the 1980s, except for 1989 when its debt growth clearly slowed due to the impact of political factors, China's foreign debt balance has grown faster than its economy every year. From 1979 to 1983, China's foreign debt balance grew faster than its GNP and national income by an average of 36 points a year, which excess grew to 47 points for 1984 to 1988, but dropped to 10 points for 1989 to 1991.

China's debt size evolution has been a process of sudden rise and relatively stable growth. Before 1985, its foreign debt balance grew only an average of about \$800 million a year, for a gross balance of \$4 billion; but in 1985 it suddenly grew to nearly \$16 billion. Then in 3 years (1986 through 1988), it grew nearly \$25 billion, quickly topping \$40 billion, as well as entering a period of sustained growth averaging nearly \$9 billion a year, with new loans averaging more than \$10 billion a year to reach \$18.9 billion by 1991, for a growth highpoint.

A Ratio of Foreign Debt to Foreign Exchange Earnings of 90 Percent Is Near the Warning Line

This sustained rapid growth of foreign debt size has pushed China's debt index toward the critical point. As to the foreign debt size index reflecting a country's national endurance—the debt rate (the ratio of mid and long term foreign debt to GNP)—China's was 2.3 percent for 1981 through 1985, up to 9 percent for 1986 to 1990, and up again to 13 percent for 1991, near the internationally accepted warning line of 15-20 percent. As to another index of debt size—the ratio of mid and long term foreign debt to trade and nontrade export earnings—China's leaped from 17 percent for 1981 through 1985 to 86 percent for 1986 to 1990, and then again to 92 percent for 1991, only 8 points below the internationally established warning line, putting China into the ranks of a medium debt country.

While this net inflow of foreign debt has eased China's foreign exchange fund shortage to a certain extent, domestic accumulation and borrowing have been out of synch, leaving related domestic funds always in very short supply, thus causing the conversion of foreign debt into RMB funds. On the other hand, there is a very close relation between borrowed foreign debt and receipts and spending, particularly during years of fiscal deficits, when the two need to grow in the right ratio, so that the ratio of borrowed foreign debt to spending is not too high. But China's foreign debt balance is growing at an average rate

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of 14 points a year, with its ratio of new foreign-debt draw to spending averaging 26 percent a year, higher than Thailand's 20 percent.

This latent debt-structure conflict is limiting to a certain extent higher marginal utility in foreign debt orientation.

As Commercial Loans Increase, Fundraising Costs Rise

Commercial lending has been growing too fast, bringing a corresponding rise in fundraising costs. As capital demand grows steadily, the terms for mid and long term concessional loans tend to worsen, thus shifting borrowing channels to commercial lending, and leaving the debt structure growing in an adverse direction. Since the mid-1980s, this trend in China's debt financing has grown ever more obvious. From 1986 to 1990, commercial lending increased sharply at an average rate of 11.3 points a year more than concessional loans, with its share of China's foreign debt balance increment up from 1985's 34 percent to an average of about 65 percent a year from 1986 to 1990. This incremental change has changed China's overall loan structure, with its ratio of commercial loans to gross foreign debt up from 35 percent at the beginning of the Seventh Five-Year Plan (1986 through 1990) to more than 55 percent by 1990, near the average for developing countries of 58 percent.

While commercial lending has simpler lending formalities and relatively easier use terms, it has high interest rates, using mostly floating exchange rates, so is easily impacted by international money-market turbulence. In addition, its repayment terms are shorter and more concentrated, which objectively gives China a heavier burden of debt cost.

Over 80 Percent of China's Foreign Debt Is Long Term

While China's long and short term debt structure is quite appropriate, an adverse change momentum is appearing. The debt term structure is a regulatory means for planning future capital outflow. China has always tried to balance its repayment terms for borrowed foreign debt, to prevent too much short term debt from creating repayment problems. In 1985, China's short term debt exceeded for a time its foreign debt balance by 40 percent, after which it was very quickly adjusted, falling through the Seventh Five-Year Plan, when mid and long term debt grew faster. From 1986 to 1990, China's mid and long term debt increment stood in a ratio of nearly 99 percent to its foreign debt balance increment, reaching by 1992 \$58.5 billion overall, making up 84 percent of its foreign debt, while its short term debt made up only 16 percent, far below the internationally recognized warning line of 25 percent.

But two problems need attention.

1. In China's new annual foreign debt loans, the share of mid and long term debt is falling, down from 1986's 86 percent to 57 percent for 1990 and 45.7 percent by 1992, while the short term debt share is rising steadily.

2. There is a trend of using short term loans for long term projects, or investing short term loans in projects with longer construction cycles, causing the appearance and spread of new borrowing to pay old loans.

The Dollar and the Yen Make up 70 Percent of China's Foreign Debt

China's debt-currency structure is too concentrated, causing a debt-income loss due to exchange-rate volatility. When raising foreign debt, the choice of currency is a basic factor directly affecting the overall cost of the borrowed foreign debt. China's present foreign debt currency-structure is irrational, subject mainly to two problems: 1. The currency is too concentrated. Ever since China began borrowing, dollar and yen debt combined have always made up more than 70 percent of its foreign debt balance. This order has been ranked by the IMF as an unsafe foreign debt currency structure. And as the yen exchange rate is always appreciating, the yen has become the most crucial currency causing China's debt loss. 2. There is a definite gap between China's export earning and state foreign exchange reserves currency structures and its foreign debt currency structure, which has also become a key debt-risk factor in the repayment process.

China's debt creditors have changed. When China first began to borrow, its major fundraising targets were foreign government loans. As reform and opening advanced, while China's fundraising channels gradually diversified, foreign government loans still made up nearly 38 percent of its foreign debt balance until 1984, while overseas bank and financial institution loans accounted for only 4 percent. But since the Seventh Five-Year Plan, nearly 50 percent of China's new foreign-debt loans have come every year from overseas bank and financial institution loans, bringing a sharp change to China's creditor order. By 1992, China's percentage of loans from overseas banks and financial institutions had topped 30 percent, 14 points higher than the share made up by foreign government loans.

China's Foreign Debt Fund Investment Is Slanted Toward Basic Industry

As most of China's foreign debt funds are controlled by various Chinese ministries and commissions and the BOC, their investment structure coincides roughly with the state's macroeconomic intentions. But for many years, too large a percentage of China's borrowed foreign debt funds have been spent on infrastructures. During the Sixth Five-Year Plan (1981 through 1985), China's ratio of mid and long term loans spent on power and transportation to its foreign debt balance was 67 percent. And while this ratio dropped somewhat during the Seventh Five-Year Plan, it still topped 52 percent. While such an investment structure has eased the "bottleneck" limitations on economic growth created by infrastructure shortages, as these industries either do not directly generate foreign exchange earnings or have poor economic efficiency, it is hard to ensure that the projects per se can generally repay the loans, thus creating great repayment pressure. Particularly as commercial loans make up more than 50 percent of China's mid and long term debt balance, this problem will grow ever more glaring.

Interest and Amortization Fund Balance Creates Pressure

China is now in a peak debt repayment period. While its interest and amortization was \$4.4 billion in 1986, it had

reached \$9.5 billion by 1992, with its debt service rate index topping the standard set by the World Bank of 15 percent. Repaying this foreign debt principal with interest will have certain adverse impacts on the normal and stable growth of the Chinese economy.

1. As reform and opening have proceeded, China's economic dependence on the outside world has grown steadily. But as China's import exchange settlement rate has always been higher than its export exchange settlement rate, with its import elasticity coefficient smaller, and exports being mostly products with lower added value, this greater dependency certainly will not enable China's foreign exchange earnings to meet interest and amortization charges when servicing its debt, while meeting the need for foreign exchange for import growth.

2. China's steady growth of foreign debt interest and amortization costs will put a heavier burden on its fiscal spending, while payment fluctuation might exacerbate its imbalance of receipts and spending. For instance, while interest and amortization costs made up 10 percent of China's fiscal spending in 1986, this figure had leaped to nearly 18 percent by 1991.

3. As to China's foreign exchange reserves makeup, most of them are BOC reserves, which averaged about 74 percent from 1986 to 1990, while some state foreign exchange reserves are foreign exchange retained by localities and enterprises, leaving the state certainly with very little reserves that it can truly use directly at any time to make up foreign exchange shortages. In this case, as the repayment peak has arrived, China's ratio of foreign exchange reserves to foreign debt has fallen steadily, down from its 2.1 for 1986 to 1990 to 1.4 by 1991, lower than the internationally established normal value of 2-2.5. This remains the state of affairs, which is point one.

China's Foreign Exchange Conversion Market Prices Rise Under Pressure

Point 2. In light of China's realities, the World Bank holds that not too many foreign borrowing windows should be established, and that they should be kept under 10 to keep from losing centralized control over them. But before 1988, China's direct overseas debt financing windows had already increased to more than 170, with its competition and disregard for fundraising costs on international money markets causing the appearance of a debt decentralization trend. By 1990, the part of China's debt that was under centralized government control as to borrowing and repayment had dropped to less than 10 percent of its foreign debt balance, while the part that was centrally borrowed by the government but repaid by localities, departments, and enterprises themselves had climbed to 37 percent, and the part that was raised and repaid by enterprises themselves had topped 53 percent. As China's credit rating is not high, financing costs are naturally higher, creating great foreign management difficulties.

Meanwhile, the debt service subject has shifted from mostly centralized debt service by Central foreign exchange to shared service by the Center, localities, departments, and enterprises. During the Sixth Five-Year Plan,

China's ratio of centrally-repaid foreign debt principal with interest to its gross interest and amortization costs was about 77 percent, peaking at 92 percent, which fell quickly in the Seventh Five-Year Plan, having plunged to less than 10 percent by 1991. It similarly needs noted that since the debt service subject has shifted, the fundraising channels for debt repayment by local governments and production enterprises have begun to shift to the foreign exchange conversion market. It can be predicted that depending on converted foreign exchange to repay foreign debt principal with interest will gradually become China's major form of foreign debt repayment. And what will follow will be that foreign exchange conversion market prices will be driven up by supply and demand, which already occurred in 1992.

Foreign Debt Shifts to Domestic Debt

Point 3. While China's national debt service rate index is below the internationally established warning line, many local governments and enterprises are experiencing debt repayment problems, with overdue debts and new borrowing to pay old debts. Meanwhile, as China practices an "overseas window" system for its foreign debt, project units generally cannot have direct borrowing relations with overseas creditors, but rather must work through financial institutions or functional departments as intermediaries, which intermediary agencies generally require all local planning commissions to act as administrative security for project units, while financial institutions, as project security, also require local planning commissions to put up counter guarantees, leaving the debt service risks actually on local planning commissions. During the repayment period, local planning commissions have to raise for project units not only foreign exchange funds, but also the necessary RMB. So to preserve their own province's and city's overseas debt financing credit, many localities are already converting foreign debt to domestic debt, putting the burden onto the state.

This analysis shows that while China is still a low debt country, a number of signs already show that its foreign debt climate is growing in an adverse direction. This will be bound to have certain negative side-effects on China's continued practice of an overseas borrowing policy in the 1990s.

Causes of Enterprise Capital Shortage, Remedies

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[Article by Chang Wenju (1603 2429 5282); edited by Xiang Da (0686 6671): "China's Enterprise Capital Shortage: Causes and Remedies"]

[FBIS Translated Text] As our socialist market economy is developing, while its market-orientation has brought thriving vitality to our enterprises, the very glaring conflicts of a capital shortage and lack of stamina have become a key obstacle to our enterprise market development. This article explores the impact of the economic operations of Chinese industry in 1993 on easing our current enterprise capital shortage.

I. The Economic Operations of Chinese Industry in 1993 and Existing Major Problems

In 1993, China's industrial output continued to grow quickly, with a gross output value (at current prices) of 4.0472 trillion yuan for the year, up 23.9 percent from 1992, and an industrial added value of 1.414 trillion yuan, up 21.1 percent from 1992. In all industry, the growth was 6.4 percent for state enterprises, 28.6 percent for collective enterprises, including 41.3 percent for township-run industry, and 46.2 percent for Sino-foreign joint and contractual joint ventures and FIEs. Our large and midsize enterprises grew 14.4 percent, maintaining a steady growth momentum. As to our industrial structure, while light and heavy industry both grew overall, heavy industry grew more than light industry. Our light industry had a gross output value (at current prices) of 1.68644 trillion yuan for the year, up 22.3 percent from 1992, with an industrial added value of 669 billion yuan, up 19.9 percent from 1992; our heavy industry had a gross output value (at current prices) of 2.36075 trillion yuan for the year, up 24.8 percent from 1992, with an added value of 745 billion yuan, up 22.2 percent from 1992.

While our industrial output grew quickly and overall, our industrial economic efficiency also improved somewhat. In 1993, our composite index of industrial-enterprise economic efficiency rose from 1992's 89.5 to 96.6. This included our industrial product sales rate up from 95.5 percent to 96.4 percent, our rate of profits and taxes on capital fund up from 10.1 percent to 10.6 percent, our profit rate on costs and expenses up from 4.2 percent to 4.7 percent, our working capital turnover frequency up from 1.66 times to 1.71 times, and our workforce productivity at added value up 19.8 percent.

But while noting the successes achieved in the economic operations of Chinese industry, we need to even more soberly analyze certain pessimistic difficulties and problems that exist in China's industrial output, mainly the following: 1. Our industrial output growth is uneven, with municipal-industry output value down, and enterprises suffering from a quite glaring problem of losses. Since the beginning of 1993, while we have seen a national prevalence in municipal industry of overall economic efficiency up sharply, with lower product inventories and higher production-sales rates, industrial output value is down, with enterprise losses increasing. 2. Our pace of conversion of enterprise operating forces is quite slow, making it hard to adapt to market change, which is most evident in large and midsize state enterprises. 3. Enterprise capital remains tight, with macroeconomic restraint factors up. This capital shortage has now become a focus of common concern for government at all levels, enterprises, state revenue, and banks.

II. The Causes of Our Industrial-Enterprise Capital Shortage

Since late August 1993, while banks have gradually become more flexible, with the central bank's basic money supply up sharply, and special banks' reserve currency also growing very briskly, all areas still generally report that since macroeconomic regulation and control measures

have been eased, quite a few enterprises are still experiencing a capital shortage. From the end of 1993 to the present, the central bank has tightened its financial macroeconomic regulation and control dynamics, pursuing a firm monetary policy, as well as carrying out a vigorous structural adjustment, which has eased the working capital shortages for certain priority enterprises, while making funds even tighter for many nonpriority enterprises in all areas.

So what actually are the causes of our capital shortage? We hold that while the surface cause of our capital shortage is economic disorder, its deeper cause is an economic structural flaw.

The capital shortage caused by economic disorder can be seen mainly as follows: 1. Local government behavior is characterized by selfish departmentalism. As our fiscal package system develops, while local fiscal autonomy grows steadily, with local fiscal vigor also growing steadily, this is accompanied by the inherent system abuse of local-government selfish departmentalism growing ever more glaring, with spreading local protectionism. So all local governments are demanding more bank credit to stimulate their economic growth without regard to local qualifications, recklessly setting aside land for development zones and starting new projects, which creates great capital-shortage openings. 2. Enterprise actions are short-term. As the contract system makes it hard to establish powerful restraint forces, enterprise actions are growing ever more severely short-term, which can be seen in excessive striving for short-term results in fund orientation. This leaves enterprises with an ever growing demand for bank credit funds, while giving quite a few banks a greater degree of asset risk with too little return, further sharpening the shortage. 3. Fiscal conduct consists of overdrafts. Fiscal overdrawn appears in the form of the fiscalization of credit funds, having various manifestations. The most thorny banking problem at present is that since banks have acquired centralized responsibility for working capital, the former provision that state revenue should supplement enterprise self-supplied funds and appropriate without compensation enterprise renewal and upgrading funds has been completely shifted to banks, leaving banks with a hard [mandated] shortage, and putting an unbearably heavy burden on banks' working capital supply. 4. The financial order is in chaos. In recent years, phenomena, such as illegal bank lending, granting loans as favors, reckless lending, and chaotic guaranty, have caused many overdue and bad loans, which is one of the major causes of the banking capital shortage. Meanwhile, financial institutions and nonfinancial institutions seek only to maximize their own profits so that, even while capital is in severely short supply, they do all possible to recklessly borrow funds to expand their credit scope and the operating scale of their own companies. This chaotic financial order only worsens the capital shortage.

The deeper cause of our capital shortage is an economic structural flaw. China's economic reform is aimed at establishing a socialist market economy. But while this aim is established, the intensification of related system reforms is still proceeding with difficulty, with fiscal and monetary

reforms particularly lagging. This can be seen quite conspicuously in that planned disposition remains dominated by a planning flavor smacking of administrative division, which inevitably causes "bottleneck" limitations due to the capital shortage, and leaves no permanent solution for the longstanding problem of an imbalanced industrial structure. The glaring problem in our current economic operations remains our irrational structure that is keeping our economy out of a good cycle, causing more conflicts in our economic operations and an increasingly tight macro-economic climate, and obstructing stable economic growth. This can be seen conspicuously in that: 1. Rail freight "bottleneck" limitations are worse. In 1993, our rail freight volume was up only 2.9 percent from 1992, far less than our industrial economic growth; 2. Our energy growth does not meet our industrial growth demand, with our 1993 gross energy output (standard fuels) up only 2.2 percent from 1992, also far below our industrial economic growth. It is thus obvious that "bottleneck" limitations are threatening the normal operation of our economy. This is caused by an irrational capital-flow orientation, which in turn is due to our current system and policies. So in a deeper sense, our capital shortage is a structural flaw.

III. Remedies To Ease Our Capital Shortage

This analysis shows that as our capital shortage has quite complex causes, diverse measures will be needed to ease it, with an ultimate solution having to depend on reform, as a wholesale solution would be impossible. The following are merely certain options for specific remedies aimed at current realities.

1. We need to tap potentials to revitalize our capital inventory. Aimed at the reality of the enterprise capital shortage with a continued increase in irrational capital tie-ups, the banking sector needs to tap potentials and reduce spending, liquidating irrational tieups as a breakthrough for resolving enterprise funding difficulties. Enterprises also need to take feasible steps to clear out overstocked raw materials and finished goods, while making great efforts to collect goods payments. And the government needs to dispose of projects that are out of line with national industrial policy, do not have funding sources, are unqualified as to construction terms, and have unclear market prospects, resolving to stop or slow construction of a number of projects, clearing out capital to ensure priority demand, and adjusting the construction order, to make plans for our whole society's gross capital.

2. We need to cut back the three capital tie-ups, continuing to liquidate "triangular debt." The three capital tie-ups and "triangular debt" that we sharply cut back and liquidated in 1991 and 1992 have resurged recently, with a stronger momentum than the last time. To resolve the capital shortage due to too much capital tied up in the three funds and "triangular debt," enterprises will have to tap inner potentials, instead of merely being dependent on banks to inject capital, while the government needs to make great efforts to solve the problem of "bottleneck" limitations, such as transportation and energy shortages. Meanwhile, banks need to vigorously publicize commercial draft acceptance aimed at the reality of the new

accounting regulations that went into effect in July 1993, gradually guiding enterprises onto a track of using commercial credit notes.

3. We need to establish supplementary mechanisms for enterprise working capital, broadening the self-regulation forces for enterprise capital demand. The demand for working capital by Chinese enterprises has long been dependent on either banks or state revenue, leaving enterprises themselves without the awareness or motivating force to supplement their own working capital. This makes it hard to meet the needs of enterprise market competition and growth. So from now on, enterprises need to do all they can to replenish the working capital that they need, while the pertinent departments need to create a more relaxed external climate for enterprises to augment their working capital.

4. We need to speed up our capital dispatch, using our limited capital where it is needed most. Special banks need to adjust and dispatch their own credit capital and scale faster, managing well while acting quickly, to use limited resources in the places where they are most needed for economic development. So we need to place a long-standing emphasis on rectification of our financial order, to keep financial disorder from sharpening our capital structural flaws.

5. We need to establish sound self-restraint forces for special banks. We need to delimit financial property rights, gradually upgrading special banks to the joint-stock system, to broaden financing channels, increase capital sources, and resolve our current enterprise production and construction capital shortage. Once we establish a policy bank, we will need to upgrade special banks to genuine commercial banks, to speed up the separation of policy financing from commercial banking.

Shanghai's Financial Markets Extend Nationwide

95CE0026A Beijing JINRONG SHIBAO in Chinese
23 Aug 94 p 1

[Article by own correspondent Li Jisheng (2621 3444 3932) by wire from Shanghai, dated 22 August: "Shanghai's Financial Center Extends Business Nationwide"]

[FBIS Translated Text] Induced by the macro-financial environment since the beginning of this year, two rather remarkable changes have begun to occur in Shanghai's short-term money market: First, the aggregate funds loaned short-term by the various financial institutions in Shanghai during January to July of 97.15 billion yuan, a comparative decline of 5.25 billion yuan, or by 35 percent, represented a marked change in volume. Second, during the same period, the Shanghai Financial Center had made short-term loans to the amount of 40.25 billion yuan, which was a comparative increase of 3.3 percent, and the proportion of the said center's short-term loan volume in the entire Shanghai money market had risen from 24 percent during the corresponding period last year to 45 percent in the same period this year. By the end of July, the balance of short-term loans of the Financial Center for the first time exceeded 10 billion yuan. This indicates that the

Shanghai Financial Center has begun to change in nature from that of a regional market to one of a nationwide market.

Because of implementing this year again the policy of reasserting order in the financial sector and strengthening macroeconomic regulation and control, order was indeed improved in the credit and loan sector and in the short-term loan market, at Shanghai as well as nationwide. The scale of credits had been essentially held within what had been decreed by higher authority, and further progress was made in stopping the indiscriminate granting of loans. On the other hand, since commodity prices had been relatively stable, the tendency of increased individual deposits was maintained, thus ensuring a very reliable source of loan capital. At the same time, the new system of settling foreign exchange, instituted in the first half of the year, and the equating of foreign exchange and domestic currency funds, have opened up so much brighter prospects for ample deposits at the banks, and has enabled all large banks in Shanghai to maintain an approximately 10 percent cash reserve for payments. The extent to which banks have become self-sufficient in funds has correspondingly reduced demand for short-term loans, especially the need to borrow short-term money, and, as a consequence, frequency of short-term loans slowed down, terms became more extended, and volume declined. This is the reason for this year's changed volume in Shanghai's short-term loan money market. As to the future development of the market, there is bound to occur a transition in the system of credit control, namely from controls by means of limited quotas to a control of the assets-liabilities ratios, and this will certainly contribute to greater stability in the financial environment at the present stage of developments.

To standardize developments in the credit markets everywhere in the country, the head office of the People's Bank proposed in the latter half of last year to adopt a policy according to which "short-term loans beyond the sphere of one organization or one region must be effected through financial centers to be organized and set up everywhere, in the first place, by the People's Bank branches." Because the financial institutions of Shanghai consciously implemented this policy, the development taken by Shanghai's short-term loan money market, while not substantially changing its organizational pattern, was a change in nature, namely from a locally limited to a nationwide market. Presently, the short-term loan business of the Shanghai Financial Center ranks high among similar institutions, and the volume of its short-term loan business with financial institutions of other provinces and municipalities is already in dominant position. In addition, interest rates charged by the Shanghai Financial Center for one-way outward loans is relatively low when compared with the money market in other parts of the country. As a result, the Shanghai Financial Center has established short-term loan business relations with over 100 financial institutions in more than 20 provinces and municipalities throughout the country, so that somewhat over 50 percent of this business are loans from the Shanghai Short-Term Loan Financial Center to financial institutions of other

provinces and municipalities, against only 21.5 percent last year. The centripetal degree of the market development is continuously rising. This shows in the regional expansion of the short-term financial market and in the fact that all other financial institutions generally acknowledge the position of Shanghai as the center of the short-term money market. As a consequence, prospects are becoming ever brighter for what concentratedly represents Shanghai's short-term money market, namely the Shanghai Financial Center, after taking over the securities and foreign exchange markets, to become another market of nationwide significance.

Prospects for Shanghai as International Financial Center

94CE0749A Shanghai CAIJING YANJIU [THE STUDY OF FINANCE AND ECONOMICS] in Chinese No 7, 3 Jul 94 18-25

[Article by Zhu Zhenhua (2612 6966 5478): "Prospects for Re-establishing Shanghai as an International Financial Center"]

[FBIS Translated Text] In the context of deepening reform and opening in China coupled with increasingly fierce competition in the world economy, the Party Central Committee in the 14th CPC Congress report has clearly stated: "With development and opening up of Shanghai's Pudong to provide the impetus, and with further opening up of cities along the banks of the Changjiang River, Shanghai should quickly establish itself as one of the world's economic, financial and trade centers, in order to promote rapid economic growth in the Changjiang River Delta and the entire Changjiang River basin." Unquestionably, the Party Central Committee, recognizing that the world economy is increasingly competitive and that this is an opportunity of crucial importance, has deliberately chosen this strategic move to get China's economy moving onto the world stage through growth and development in Shanghai.

I. Re-establishing Shanghai as an International Financial Center Is Feasible

(A) Shanghai's Economic and Financial Development Is a Good Foundation

Since China's reform and opening to the outside, Shanghai's economy has made adjustments and maintained a relatively stable growth rate; starting from a higher statistical base, its GNP grew an average of 7.4 percent during the 1980's; although this is lower relative to China's average figures, it is nevertheless noteworthy that Shanghai's economic structure has changed gradually from the former planned economic model to a new market-based economic model and to a structure required of a major international city, changing from a structure of "secondary, tertiary, primary industries" focused on industrial development to a structure of "tertiary, secondary and primary industries" emphasizing growth of the tertiary sector. After several years of endeavor, the ratio of secondary industries in Shanghai's economy has declined yearly: from 77.4 percent in 1978, to 68.5 percent in 1986, 64.3 percent in 1991, and 62.5 percent in 1992. Growth of

the tertiary sector has accelerated, increasing gradually from 21.1 percent of Shanghai's GNP in 1980, to 27.5 percent in 1986, 31.8 percent in 1991, and 33.1 percent in 1992. Relevant authoritative estimates indicate that ratio of the tertiary sector should be 36.5-37 percent in 1993, indicative of a rather strong growth momentum. Particularly encouraging is the growth of the important financial services sector, whose output value relative to Shanghai's GNP has been rather low in the past, averaging 1.8 percent in the 1950's, 2.4 percent in the 1960s, 2.1 percent in the 1970s; the ratio was 3.78 percent in 1981, 5.11 percent (2.559 billion yuan) in 1986, and 9.7 percent (10.223 billion yuan) in 1992. In recent years, the sector has grown considerably, and this is inseparably related to the relatively rapid development in the financial insurance sector.

The relatively rapid growth of the financial service sector can be seen in terms of the following:

First, the increase in the variety of financial entities. After more than a decade of financial reforms and development, a new system of financial organizations has developed in Shanghai, involving cooperative division of labor among different financial entities, with state-owned commercial banks as the core, and all under the overall central bank leadership of the Bank of China. This system has clearly defined levels and an integrated structure. There are four levels: first, central bank; second, state-owned commercial banks (including regional banks formed on shareholding basis and specialized banks which are being converted to commercial banks); third, various nonbank financial entities (including collectively owned); and fourth, foreign-funded financial firms. This system in Shanghai now includes: 29 Chinese-foreign jointly funded banks, including their branches totalling 1,119 firms; 560 non-bank financial entities of various types, with 238 branches; and representatives' offices of 44 foreign-funded banks.

Second, the relatively rapid increase in the number of people employed in the finance and insurance sector, from 24,000 in all of Shanghai prior to reform and opening to approximately 45,000 today, of whom 65 percent are employed by banks.

Third, the rapid growth in tertiary business volumes. The basic reason is the steady and rapid growth of Shanghai's financial markets. Growth of the capital market was the most rapid: in the short period of over two years, the transactions volume has increased 50-fold; from the annual volume of 12.6 billion yuan in 1991, to 76 billion yuan in 1992, and 224.7 billion yuan in the first half of 1993, an increase of 204 billion over the same period of 1992, an 8-fold increase; and the momentum of growth continues to be strong. On the variety of products and services, there were eight in the beginning, but that number rapidly increased to 105 by August 1993. Stock exchange membership increased from a score to 372. The number of trading seats increased from 20 some in the beginning to 1,200. The trading halls also gradually expanded to four halls. The number of financial entities doing business in Shanghai has exceeded 400. Development of the monetary market has also been quite rapid. In 1986, short-term capital lending totalled 9.1 billion yuan in all of Shanghai;

three years later, the total reached 84.8 billion yuan, a 9.5-fold increase, and to almost 170 billion yuan six years later in 1992, a 18.7-fold increase. Growth in 1993 was even more rapid, the volume already reached 117 billion yuan in the first six months, an increase of 47 billion yuan over the same period in 1992. This has laid a good foundation for further growth of the monetary market. In contrast, although the promissory notes discount market grew more slowly, increasing only close to 4-fold between 1989 and 1990, and moderately over the next two years at the level of 20 plus billion yuan, nevertheless Shanghai was the first to begin this internationally accepted trading, and by the development and standards of a market economy, this trading sector will certainly develop rather rapidly.

Shanghai's foreign exchange market, which has long operated on the basis of open pricing competition, is certainly a good basis for becoming the standard foreign exchange market in the not too distant future. That is to say that in terms of foreign exchange market development, Shanghai has done well. The exchange volume of \$1.85 billion in 1990 represented a 5.6 percent increase over the year before; the volume increased 42.3 percent in 1991, 38 percent in 1992, and 36.6 percent in the first half of 1993, which is a respectable growth trend indeed. At this juncture, Shanghai's transactions methods are emulated by other foreign exchange centers in China. Market prices quoted in Shanghai already exert influence on exchange prices in other centers in China, and Shanghai is now actively working on site to expand the functions of the foreign exchange center, planning in the near future to reach out to the other centers in China; in particular, to enroll various qualified firms in the East China region to be the Shanghai Exchange members in order to increase the volume of exchange and expand the area of coverage. It can therefore be seen that the degree of influence Shanghai exercises is gradually expanding, and the feasibility of Shanghai becoming a financial center within the defined parameters is increasing daily. Shanghai has yet another advantage, namely, it was the first to try out operating a foreign exchange futures market, which can provide a foundation for the foreign exchange capital market in the future.

Gold is an important component of financial market. Although Shanghai does not have a gold market per se at present, a rather good base for establishing such a market does exist. Today more than 200 firms in Shanghai are already dealing in gold and jewelry, and trading with other similar firms in China. The annual sale volume was 8.9 ton in 1991, 15 tons in 1992, and 10 tons in the January-May, 1993, the highest level recorded in China. Furthermore, demand continues to increase. From the supply and demand standpoint, therefore, conditions in Shanghai for launching a basic gold market already exist.

Insurance is an important component of financial market. There is a relationship of mutual reinforcement and support in the developments of the insurance and banking sectors; development in financial services helps promote national economic development and provides a material foundation for development in the insurance sector, and the latter guarantees the safety of deposits and loans and

ensures that a credit system is established and perfected. Therefore if Shanghai is to become an international financial center, it cannot be without an insurance market. In 1993, there already were three insurance companies, one of which a foreign-funded firm, and 53 branch companies in Shanghai. The scope of insurance coverage has continued to expand, the types of insurance products continued to increase, and insurance premiums income continued to grow: 70 million yuan in 1980, 300 million in 1986, 1.1 billion in 1991 and 1.8 billion in 1992.

Fourth, Shanghai's unique transportation and geographic advantages. Since the Qin Dynasty, Beijing, Tianjin, Shanghai, Wuhan and Guangzhou are considered the five major cities in China; Shanghai, located in the middle of the five cities, enjoys a very convenient transportation network; from Shanghai one can easily reach every region in China via water, land or air, and all important ports of every continent in the world by sea. From the standpoint of the world's time zone, Shanghai can functionally link with several international financial center cities in a continuous operational cycle: i.e. when the market in New York closes, the Tokyo Market opens; before Tokyo closes, Shanghai will be doing business, and when the Shanghai market closes, Zurich takes over; when Zurich closes, London opens up and the New York market picks up when London closes down. In this circular chain, the world's financial markets can continue operation in turn. Shanghai therefore has the unique geographic advantage of being able to participate in the continuous operations of financial markets around the world.

Fifth, considerable groundwork exists for computerization and computer networking. Shanghai, as a major city, has rather strong technological capabilities and considerable capacity for installing facilities suitable for modernization. After several years of focused efforts and construction, computer usage has become quite common in all banks and financial entities today, and the industrial and commercial banks, in particular, have established their own internal computer network and continued to expand its coverage; in addition, industrial banks and Bank of China branches have all installed computer centers of considerable size and standard and these centers manage a huge volume of work daily, setting a standard for all China. The computerization level in the Stock Exchange is not lower than that in Hong Kong. Authoritative sources state that as long as Shanghai has the money, within three five years, computer capability and usage level will certainly not be lower than the level in the several international financial center cities today.

Sixth, because of the rather strong legal concept in Shanghai people, their actions tend to conform to rules and standards; operational experiences of over a decade demonstrate that whenever a new organization or business is introduced or promoted in Shanghai, people would first study the operative rules and regulations of the area, try out provisional management practices and not rush into the business hastily without careful consideration.

Summarizing the above, after over ten years, the state of Shanghai's economic and financial construction and development is good, and development of the financial sector in

particular, has been relatively rapid; besides, Shanghai was once one of the world's financial center cities and has a unique historical advantage; therefore, if cooperative efforts are applied, it is entirely feasible that with another decade or so of concrete preparation and building, Shanghai will again emerge as an international financial center.

B) Policy Guidance From the Prescribed Strategic Objective

The 14th CPC Congress report outlines three strategic objectives for Shanghai for the next 10, 20 years; Mayor Huang Ju therefore spelled out in a timely manner the near-, intermediate- and long-term objectives: the near-term objective is to prepare a foundation for establishing Shanghai as an international economic, financial and trade center by 1995; the intermediate-term objective is to take steps to create the overall framework for such a center by the year 2000; and the long-term objective is to establish Shanghai as one of the world's economic, financial and trade centers by the year 2010.

Accordingly, Shanghai has also drawn up developmental guidelines based on the commonly recognized benchmarks for establishing such a center: Maintain an annual growth rate of 10-12 percent over the next eight years, i.e. Shanghai's GNP should be close to 130 billion yuan by 1995, and to 230 billion yuan by the year 2000.

If Shanghai's GNP is to grow at this pace, an urban development policy focused on the industrial sector can certainly not be relied upon; for this reason, it was necessary to quickly change and re-focus on the tertiary sector. Major efforts were therefore made to develop tertiary industries, especially the financial services and insurance businesses, and to make facilitation and services the major capabilities of the Shanghai economy. In view of this, we have, in drawing up the developmental plan, scientifically determined that the tertiary sector growth rate versus that of the financial services and insurance sector should be 16 and 17 percent respectively. That is to say that the tertiary sector's output value relative to that of the financial services and insurance sector should be around 49.2 billion and 15.2 billion yuan by 1995, and 106.3 billion and 33.3 billion by the year 2000; only then can the growth in these sectors match the pace of Shanghai's overall economic growth, with the two sectors accounting for about 46 percent and 14 percent respectively of Shanghai's GNP, figures which are comparable to those in Japan and the Republic of Korea today.

After the year 2000, with Shanghai's economy continuing to grow at an annual rate of 8 percent, the GNP would be approximately 499 billion yuan by 2010. If the tertiary sector continued to grow at an 11 percent rate, and the financial services and insurance sector at 12.5 percent, then the output values of the two sectors should reach 329 billion yuan and 149 billion yuan by 2010, or 66 percent and 30 percent of Shanghai's GNP respectively, which are comparable to the standards in developed countries today.

This developmental plan is encouraging and also quite realistic and feasible. This is because Shanghai's GNP was

already 105.4 billion yuan in 1992, so achieving a GNP of 130 billion yuan by 1995 is entirely feasible.

C) Analyzed in terms of international criteria, establishing Shanghai as an international financial center is also feasible.

An international financial center generally refers to a financial market with a strong and developed network of financial entities, capable of providing various useful services, of handling international capital loans and credit transactions, and of buying and selling of foreign exchange and trading in gold, etc.

The international criteria for establishing such a center, generally speaking, include the following: First, a strong domestic economy in the background, with international balance of payment surpluses so that foreign investments can be made. Second, a stable monetary system and a currency sufficiently strong to be used in international balance of payment transactions. Third, a functioning open foreign exchange system; i.e. with no or relatively little governmental controls over foreign exchange transactions, allowing for relatively free withdrawals and remittances. The financial system should be quite liberal, without strict controls of interest rates and required reserves for bank deposits, and extend to non-citizens engaged in financial activities nonprejudicial or comparable treatment as that given to citizens. Fourth, complete and relatively developed systems of financial entities and of credit, with the tools as well as channels to facilitate capital flows internationally, a coordinated banking structure and so forth. In short, there must be a healthy and developed domestic financial market. Fifth, modernized communications facilities capable of transmitting and facilitating the flow of time-sensitive data and intelligence to and from other financial centers and helping to consolidate the newly formed international financial trading network. Sixth, a corps of professionals who have had specialized training and who can manage various financial transactions with great efficiency. Finally, it should also meet such criteria as suitable geographic location, favorable environment, convenient and rapid transportation, etc.

Summarizing the above-mentioned criteria in terms of the current reality, Shanghai still falls considerably short in certain respects. For example, control of the Shanghai's foreign exchange is rather strict, and the system needs to be relaxed, and the renminbi gradually made freely convertible; although financial tools have been upgraded driven by the needs of economic development and in such areas as currency and foreign exchanges, bond futures, etc., further refinement and continued innovation (including importing new tools from abroad) in a timely way are necessary not only to keep up with economic developmental needs, but also to provide the impetus for further development; management of interest rates, a key economic lever, is unimaginative and inflexible, and there is the need to develop and utilize the potential flexibility interest rates to regulate the supply and demand of capital and allocation of resources; modernized communications facilities and tools are still inadequate and hamper our

perspective and efficiency; the degree of commercialization in banking is far from enough and much more rapid transformation is required; financial services and insurance sector personnel capable of international competition are very much in demand, and the training of these people must be accelerated.

Despite the gaps and deficiencies which still exist, and some are rather major, it is our judgment that given the strategic objective and policy guidelines of the central and municipal governments, the existing foundation for the current economic and financial growth, continued deepening of reform and opening and another decade or more of hard work and struggles, it is still feasible that Shanghai, judged by the above-mentioned criteria, will once again become an international financial center.

II. Goals, Process and Implementing Measures for Re-Establishing Shanghai As an International Financial Center

A) Near-Term Goal, Process and Implementing Measures (1993-1995)

1. Near-Term Goal

This goal is to establish Shanghai as the national stock exchange center, and to increase Shanghai's stock transactions volume from 25 percent of the nation's total in 1991 to around 65 percent. In this process, the Shanghai Stock Exchange will gradually reach international standards and be linked to the international market, functionally coordinated with other major stock exchanges abroad. Naturally, the monetary and foreign exchange markets must also be developed quickly at the same time, and we should seize the opportunity presented by the opening of Pudong to make them into the East China centers by 1995. Concurrently, we need to break into financial markets abroad and open up channels for total entry into the world market.

In this stage, an additional 20,000 trained personnel and 1,000 firms (including their branches) will be needed. Of the personnel, 60 percent should be deployed in Puxi, and 40 percent in Pudong.

2. Measures Which May Be Implemented in the Near-Term

a) With the development of the financial sector, gradual entry of foreign-funded financial entities and large quantitative increase in stock market transactions, etc., urgently develop management techniques and practices which conform to international customs. We urgently need to study this issue now, and on the basis of a broad consensus, we suggest that the following laws and regulations be adopted within one year: "Central Banking Law," "Law on Financial Market Management," "Law on Incorporation," "Bankruptcy Law," "Law on Stock Transactions," "Law on Bills and Notes," "Commercial Banking Law," "Foreign Banking Law," "Insurance Law," etc.; a well-crafted system of financial legislation, administration and adjudication will create a favorable and effective legal environment for domestic and foreign investors, standardize activities of all investors and help develop a self-managing, self-policing and standardized channel for competition. In

this regard, it will be particularly important to strengthen or standardize management of the stock market.

b) Continue to expand the implementation of the shareholding system, increase the issuance of stocks and other types of debt instruments based on market needs, attract or draw companies in other provinces and cities that can meet the market requirements to list their stocks and bonds at the Shanghai Exchange, increase the variety of offerings and the volume of transactions so that the Shanghai Exchange's volume, relative to the nation's overall volume, will grow annually by 10 to 15 percent to around 65 percent of the total volume by year's end 1995.

c) Based on the principle of relating the state of development in stocks trading to a rational network of exchanges, establish in various prefectures and counties stock trading offices to meet the need of the broad masses of investors. At the same time, the Shanghai Exchange should open its doors to qualified stocks trading companies in all localities in China, and allow them to establish branch offices at various locations in Shanghai, to become members of the Shanghai Exchange, and increase the latter's membership from 379 at present to 800, and trading seats to 3,000. Naturally, as Shanghai attracts others to come in, we should also encourage entities in Shanghai to branch out. This will make Shanghai a de facto national trading center.

d) In developing stock trading companies, and ensuring that shareholding companies going public will meet the required international standards, consider inviting in 1993 [as published] two internationally well-known securities appraisal firms to come to Shanghai, either as a sole-source investment or a joint venture with China, to scientifically appraise the assets value of shareholding companies. We should also consciously and quickly develop financial services and financial investment firms to meet our objectives. Service firms include accounting firms, auditing firms, investment advisory firms, etc.; investment firms include mutual funds, venture capital firms, medical insurance and retirement pension funds, etc. Service firms can establish branch offices in other provinces and cities to draw investors to Shanghai and to extend the Shanghai market's influence and coverage.

e) Continue step-by-step to list B shares on the exchange every year, and select qualified enterprises to list their stocks in exchanges abroad; at a suitable time next year or year after next, invite several stock companies, either foreign-funded or joint-venture companies, including select stock trading companies in Shanghai of appropriate size and good management, to participate in international stock offerings. This will enable [investors to become acquainted with] Shanghai stocks and other international stocks, help promote the linkage of the Shanghai Exchange with other foreign exchanges and facilitate learning of management and operational techniques of foreign-funded firms. Gradually, China's domestic operating system will be drawn closer to the international operating system. And as the renminbi gets to circulating in foreign exchanges, we can open A shares to foreign investors and allow Chinese citizens to buy B shares. With both A and B shares

available to all investors, the scope of Shanghai's stock market will be enlarged and its status elevated.

f) Gradually relax the policy-dictated administrative management system, allow buyers and sellers of various assets to enter and exit China freely, to self-manage their operations and to make deals based on mutual agreement, thereby nurturing a completely open, fair and equitable self-managed market system.

g) In the near term, financial circles in Shanghai must actively cooperate with each other to establish a unified information and communications network. Changes in financial markets are instantaneous, and we must have an information system linking China's domestic and foreign firms, based on unified technological standards, and operating with high speed and efficiency in information collection, transmission, management and utilization, all of which are basic requirements for integration with the international financial system.

h) Seize the opportunity in developing the New Pudong district to create the conditions for offering off-shore financial services and [through them] to open up channels to the international market.

i) Based on the projection of Shanghai growing annually at 12 percent, and commercial transactions at 16.1 percent, one can assume that financial industries will also develop quickly, and large, medium and small financial firms which handle various types of financial transactions will come on the scene. We therefore anticipate an additional 1,500 such firms to be established within the 1993-1995 time frame, which will include home mortgage banks, savings banks, off-shore banks, and branches of banks in other provinces and cities as well as of various financial and trust companies and so forth.

j) Although our insurance sector has grown considerably over the last decade or so, compared to world standards, the insurance business has a longer way to go than the banks. We consider that as we concretely open up the insurance parameters, we should in the near-term also establish firms with the special characteristic of insuring Chinese business; at the same time we should welcome insurance companies in other provinces and cities to establish offices in Shanghai, and Chinese-owned insurance companies from Hong Kong, such as Min-An, Chao-Shang, the Chung-Yin Group, Yung-An (Wing On) and Hsien-Shih (Sincere) to establish branches in Shanghai, do business within China as well as abroad. We should also selectively invite a number of the world's 100 largest insurance companies with the best reputation and longest operating experience in the world market to come to Shanghai and compete for business.

k) As soon as possible, consider organizing a unified training mechanism to develop Shanghai's financial services and insurance personnel and (through the Shanghai Banking Association or Banking Federation) coordinate the initial phase of intensive training for the various types of personnel. In the three years from 1993-1995, we should conduct six to eight cycles of after-hour training programs on different aspects of the business, each cycle to be six

months in duration, with classes organized by different levels of specialization, and lecturers invited from among senior specialists in various relevant entities, or Chinese financiers in Hong Kong and Singapore. Based on training results, select and send the best students to foreign institutions for further studies, or to a certain period of on-the-job training in foreign-funded banks in Shanghai.

At the same time, various systems will need to be revised; beginning in 1993, the labor law and employees responsibility system should be strictly enforced so that the employees' real income will be based on the system's regulations, i.e. rewards are granted for merits and achievements and punishments handed out for non-performance. Periodically, invite well-credentialed financial experts from within China or abroad to give substantive briefings on the current international economic and financial scenes for Shanghai's financial sector personnel to broaden their perspectives and reinvigorate their aggressiveness and sense of urgency.

l) Beginning 1993, change the current regime of fixed interest rates to a regime of flexible rates governed by the needs of financial markets; gradually begin using interest rates to perform economic leverage and control functions.

m) Based on the needs of economic development, gradually create or import various financial tools or credit methodologies (e.g. tools which are tied to forms and paper usage). Consider how to gradually select and put into use the following new financial services: 1) time limit on foreign exchange and interest rates; 2) facilitation in issuance of bills and notes; 3) like-kind exchanges of financial instruments; 4) guaranteed long-term interest rate; 5) repurchase agreement; 6) convertible bonds; 7) money market mutual funds; 8) money market fund accounts; 9) compound interest bank deposits; 10) assets management; 11) certificate of credit.

n) Recommend readjusting our fiscal policy to promote local and regional enthusiasm to support financial services development. Today, financial entities have to turn their entire profits over to the central government treasury, and nothing to regional authorities which definitely affect the latter's enthusiasm to develop the financial sector. In view of the fact that development of this sector requires objectively speaking a suitable economic environment as well as concrete support and backing of regional authorities, the central government must therefore readjust its fiscal policy and find ways to provide appropriate feedback. At the same time, readjustment should also be made in similar or comparable situations between cities and prefectures; for example, tax revenues from the Shanghai municipality-owned trust company, Aijian Financial Company and four overseas Chinese-funded banks all go to the municipal treasury, and not a cent to treasuries of the prefectures in which these entities are located. Henceforth, as more and more financial entities grow and develop in Shanghai, more and more of this kind of contradictions will surface; therefore, the Shanghai municipal treasury should also consider what may be appropriate subsidies for the prefectural treasuries.

o) The central government can emulate the Singapore government's approach of giving preferential tax treatment to promote development of their financial sector. Beginning 1993, an annual 3-5 percent tax waiver would enable Shanghai's financial sector to speed up installation of computers and fax machines to establish linkage with international banks and markets. After three years, this waiver may then be rescinded.

p) Based on the growth and development of the stock market, take major steps to promote development of the monetary market, such as allowing banks of other provinces and municipalities to use liquid assets certificates as collaterals for loans, and other provincial and municipal authorities to market short-term bonds in Shanghai. A turn-around mechanism will be created with the stock market raising the capital, and the monetary market lending out the capital. It will help the Shanghai monetary market strive to become a center under the current central government's system of allocation of capital.

q) Next year, turn the current Shanghai foreign exchange center into a national foreign exchange center. It will operate like the Stock Exchange by broadly reaching out to various localities to recruit new members, and utilizing modern telecommunications facilities to network with other provinces and cities; along with increasing the foreign exchange function of regulating surpluses and deficits, create a market system for standardized foreign exchange trading. Later, foreign exchange controls should gradually be relaxed or removed.

r) At the end of this year or beginning of the next, establish 2-3 policy-oriented banks to gradually take over all policy-oriented portfolios, help specialized banks to transform into commercial banks and increase their ability to compete with an increasing number of foreign-funded banks. Otherwise, controls over foreign-funded banks cannot be completely removed.

s) In order speed up the pace of specialized banks transforming into commercial banks, consider taking actions in three stages: first, establish separate accounts for policy-oriented portfolios. Since the "policy" banks to be established will find it difficult to take over all the policy-oriented portfolios within one to two years, specialized banks should continue to shoulder a portion of these portfolios (which will gradually be reduced then phased out by year's end 1995), but separate accounts should nevertheless be kept and henceforth (until the capital assets are revaluated at the end of 1995) subsidies (or revaluations) should follow established formats and fixed channels. Second, change the current system of multiple layers of corporate entities. In our judgment, it is possible to downsize and subdivide corporate entities. Taking the different circumstances into account, divide the several especially large specialized banks into several banks with the same characteristics and locate them in different economic areas. This will not only help in the commercial transformation of these banks but also speed up the entire process. Third, beginning early next year, change the current practice in credit management to a loan-to-asset ratios management, and create the conditions which

permit them to engage in commercial competition. By the latter half of 1995, undertake an overall assets revaluation of all frozen assets, at-risk assets, defaulted loans, etc.; determining their true assets values will lay the foundation for implementing a shareholding system in banks by 1996.

t) To quicken the pace of opening up to the outside, promote the position of China in the GATT, and help speed up the process of commercialization of China's specialized banks, consider moving the headquarters of Hong Kong's Chinese-owned banks now in Beijing to Shanghai, and urging them to establish branch operations in Shanghai; at the same time, while gradually drawing major foreign banks to do business in China, proceed to relax step-by-step the operating scope of banks, and encourage and assist China's (and Shanghai's) financial entities to establish branches abroad.

B) Intermediate-term Goal, Process and Implementing Measures (1996-2000)

1. Intermediate-term Goal

This goal calling for developing the monetary and foreign exchange markets from their status as regional centers in the earlier stage into national centers. By making Shanghai into a hub for such international market financial transactions as short-term capital, commercial bills and notes, trade discounts, short-term loans, bank discount of promissory notes, one-year treasury bill, European currencies exchange, foreign exchange, etc., Shanghai can then make these services available to all other localities in China; when Shanghai accounts for around 40 percent of all such transactions nationally, it will be able to link up with similar markets abroad.

In the intermediate stage, create the conditions for establishing a true gold market.

This stage can also be seen as a time for development on all fronts: take full advantage of the good habits developed in the course of developing the stock exchange, monetary and foreign exchange markets, broadly and concretely open up the domestic and foreign markets, aggressively introduce a variety of new services, strive to develop multi-leveled and multi-faceted financial entities, and vastly increase the number of financial services personnel. In so doing, we estimate that compared to current and relevant models provided by several international financial center cities, we need to increase the various types financial entities by 3,000 (including branches); of which, 1,000 firms in Puxi, 2,000 in Pudong, and a majority of the entities will be Chinese or foreign-owned nonbank financial entities; finally, we need to increase the personnel in this sector by 70,000.

The goal at this stage is to complete the building a basic framework for an international financial center in Shanghai.

2. Possible Measures for Implementation in the Intermediate Period

a) Continue to relax foreign exchange controls and consider setting up in Pudong an unofficial financial center (i.e. offshore international financial center), similar to

what some countries or regions have done to meet certain commercial objectives of reducing procedural red tapes or providing tax havens for international investors. By pursuing this policy, we can attract many more firms from abroad to come and do various financial businesses in Shanghai.

b) At present, the more than 90 percent tax burden on our specialized banks is too heavy, when foreign-funded financial firms enjoy the preferential policies of waiving, delaying or cutting in half of their taxes due, and paying a business tax of around 20 percent which contrasts sharply with the rate for domestic firms. By the beginning of 1996, we must greatly reduce the tax burden on domestic financial firms and raise their profit retention level, so that they will have the wherewithal to engage in fair and aggressive competition with foreign-funded financial firms.

c) To the extent possible, move the headquarter offices of domestic financial firms to Shanghai; base the headquarters of all newly established national financial firms in Shanghai; ideally, open a People's Bank of China office at Waitan in Shanghai, headed by a vice president. This would not only create the atmosphere and objective conditions for Shanghai to be an financial center, but would also be a sensible policy move which can help accelerate the process.

d) Change the operating system in certain suitable large- and medium-sized state-owned enterprises, and replace it with the shareholding system; with several large commercial banks converting to the shareholding system, establish one to two trust banks to supply long- and medium-term socially beneficial loans (funds from state-owned banks come from the central government treasury in the form of "developmental credit.")

e) Allow all applicants who qualify under the various central bank registration requirements to establish non-bank financial entities based on the shareholding system; encourage in particular the steady growth of financial entities which provide intermediary services related to the healthy development of financial market. The number of such entities bears directly on the extent of activities in the whole financial market. Therefore allow them to compete openly and fairly so that only the fittest will survive and, after a period of natural selection, raise the overall qualitative standards of entities competing in the market, and bring our market up to international standards.

f) After a certain period of competition between foreign-funded financial firms and domestic financial firms, particularly the large commercial banks, encourage the winners to establish outlets overseas to expand the influence of China's financial firms internationally.

g) Strengthen the central bank's macroeconomic control and regulating functions (over transactions audit, gold management, foreign exchange rates, etc.); combine official and semi-official approaches in exercising direct and indirect control and regulation, and use the macroeconomic control mechanism based on direct regulation to stabilize the financial market.

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h) Continue without interruption an in-house training program for younger staff members, and send a small number of the most promising to receive on-the-job training in foreign-funded banks so they can acquire the newest techniques and procedures; banks should coordinate with educational institutions and select from among the students those who wish to pursue a financial service career and give the best qualified students financial aid on the condition that the recipients upon graduation will consider accepting employment in the aid-donor banks; but if that condition is not met, the financial aid must be repaid.

i) Beginning 1997, except for the People's Bank of China, all general managers of shareholders-owned financial firms will be employed through open recruitment; after a meeting of the stockholders has decided on the length and terms of employment and management objectives, and the board of directors, guided by these terms and objectives, has set forth the specific requirements and basis for selection, a search committee of specialists will be organized to review the applicants' resumes, select 3-4 for the oral interviews and choose two of the candidates, one to be appointed general manager, the other deputy general manager. The general manager will have full authority to recruit, screen and select staffs for the other departments within the firm; he/she is answerable to the stockholders, and renewal of his/her employment contract will require reappraisal based on new selection criteria.

C) Long-Term Goal, Process and Implementing Measures (2001-2010)

1. Long-Term Goal

This is the stage when all the plans come into fruition. After the gold market has gained its status as a regional center, internationally recognized financial policies should be applied to readjust the various major factors which bear on the development of a financial center; Entering into international financial operations, the center will introduce in a timely manner financial services and tools suited to the new circumstances, take part in major international financial transactions, and maintain 24-hour contacts with several major international financial centers, sharing their ups and downs and earning its place in the inner circle of world finance. Therefore, in this stage, employment in the financial sector should increase by more than 100,000 people, and raise the sector's ratio to 4 percent of Shanghai's total employment (in terms of 1982 statistics, [the ratio was] 6.7 percent in Hong Kong, 5.3 percent in the U.S., 5.4 percent in Britain, 6.4 percent in Zurich, 0.8 percent in India, 0.5 percent in Shanghai; in 1936, however, Shanghai's was 2.5 percent, and in 1949, 3.98 percent); the number of firms should increase to 4,000 (including branches), 2,500 in Pudong, and 1,500 in Puxi. By that time, the international financial center established in Shanghai will mainly be centered at Waitan in Shanghai and Lujiazui in Pudong.

2. Measures Which May Be Implemented Over the Long-Term

a) In the year 2000, with the Shanghai Banking Association cooperating with its counterpart in Hong Kong, establish a university in the Shanghai-Pudong area, with all facilities at European- and U.S.- standards, staffed by English- or Japanese-speaking Chinese and foreign faculties, and offering finance curricula in both languages, which are to be used in the classroom by both students and faculties. The main mission of this university is to train externally oriented high-level decision-making and managerial personnel. Students can be selected or recommended by various financial entities as well as admitted through examinations from secondary institutions and the society at large; students admitted via examinations can apply to banks for employment upon their graduation.

b) Institute free convertibility of the renminbi yuan.

c) Continue to establish various types of financial entities.

III. Policies Needed To Promote Attainment of These Goals

Today, the world's financial centers are divided into two major types: The functional type are cities which have evolved through involvement in financial activities over a long period of time; the nonfunctional type are centers which are developed as a matter of policy based on the determination of man. If Shanghai is to re-establish itself as an international financial center within 10 to 20 years, in our view, we should adopt the approaches of both types of financial center. We therefore recommend:

A) As the central government has set forth the strategic goal of developing Shanghai into a "Triple Center" to energize development of the Changjiang River Delta, the Changjiang River basin cities and China's economy itself, then the related implementing policies should match that goal. For example, as the Shanghai Stock Exchange is already an important component of the financial market, further assistance should be given to expand its functions and develop its scale of operations, that is to say, consider allowing corporate shares to be traded. Again, under the current system of capital allocation and transfer, the Shanghai monetary market in fact finds it difficult to play a role; in order for this market to become a national center in the near future, would it not be possible to extend to Shanghai certain special policy preferences and measures different from those applying to other provinces and cities: for example, setting aside a large sum of capital for use especially in borrowing and lending among like-kind enterprises in different provinces, or allowing Shanghai to issue interest-bearing or discounted liquid assets certificates for inter-province borrowing use.

B) Encourage and make it possible for banks such as Chao-shang, Chung-xin, Guang-Da to transfer their headquarters to Shanghai to strengthen the financial strength of Shanghai as the center.

C) Direct national banks and non-bank financial entities established in the future to set up their headquarters in Shanghai to gradually build up Shanghai as the center.

D) As the total volume of renminbi traded and exchanged abroad grows, allow Shanghai to handle renminbi trading at an early date.

In conclusion, it is our judgment that if the central government wants Shanghai developed into a "Triple Center," it is necessary that Shanghai be given special policy treatments as a special city. If everything is to follow a national pattern, and implemented in the same way, it would be difficult for Shanghai to become a "Triple Center," to say nothing of re-establishing itself as an international financial center. Otherwise, however, it is entirely feasible that Shanghai can meet these goals.

Preparations for First Private Bank Underway

95CE0026B Beijing ZHONGGUO XINXI BAO
in Chinese 14 Sep 94 p 2

[Article by own reporter: "Preparations Expected To Be Completed This Year for China's First Private Commercial Bank—Collecting Idle Capital, Stopping Illegal Lending and Borrowing"]

[FBIS Translated Text] As reported by the ZHONGHUA GONGSHANG SHIBAO [CHINESE INDUSTRY AND COMMERCE TIMES], after many months of studying and planning, preparations have now reached the substantive stage for the opening of the first private commercial bank in China's new era, the Minsheng Bank. Chairman Jing Shuping [4842 0647 1627] of the All-China Federation of Industry and Commerce, as the bank's sponsoring unit, said, all official preparations for the bank will immediately start as soon as statutes and procedures will have been fully worked out and approved by the People's Bank of China. Approval for setting up an "official preparatory office" is expected within this year, and business operations may possibly start officially sometime next year.

As informed by chairman Jing Shuping, the purpose of the bank will be to help the sound development of China's private enterprises. Guided in its operations by the laws of market economy, it is intended to set up this private commercial bank of nationwide character, utilizing capital provided by the private enterprises themselves, administering its business by itself, and aiming to serve mainly the 280,000 private enterprises in China. By now, preparations for the said bank have almost reached the state of officially subscribing to shares, officially setting up the board of directors, and officially appointing the main executive officers.

We are informed that the said bank will make its appearance as an institution on the shareholding system, a bank with all-round comprehensive operations on the shareholding system. Management will be according to the system of full responsibility of the bank president, who will work under the guidance of the board of directors, which will be organ of highest authority. Since it will be a bank of nationwide operations, its capital will be on the order of 2 billion yuan. The sole source for its capital will be the independent capital of the shareholders in their private enterprises, and this capital will be raised in the form of a one-time subscription by shareholders, whereupon a network of branches will be gradually set up in all the various

provinces and municipalities. However, no decision has yet been made as to who will be shareholders, as to the official name of the bank, location of the head office, and the selection of the bank president. As to the scope of the bank's business, Jing Shuping believes that in compliance with all state rules and generally speaking, whatever business a commercial bank can do will in principle be done. This will comprise business in RMB as well as in foreign currencies, aiming to render service particularly to private enterprises entering world markets and enhancing their economic cooperation with abroad. Commercial banks are independent in their business decisions, responsible for their own profits and losses, and their boards of directors must bear responsibility toward their shareholders and depositors. Whether the operations will be profitable will therefore be the bank's main basis for lending money. He believes that, expressed most bluntly, commercial banks are "least susceptible to emotional considerations." As long as a private enterprise, when demanding a loan, can show good prospects, as long as the loan will conform with the developmental law of China's market economy, and as long as the enterprise can provide a certain collateral according to commercial bank practices, such demand will in principle be positively considered. He also said, at the present stage, when China's private economy is rapidly developing, some private enterprises have grown into large-scale conglomerates with business expanding beyond one region and beyond one line of trade. However, there is the problem that the working capital of some enterprises is seriously insufficient. Although there are some commercial banks in China, they each have already their particular clientele to serve and their particular credit plans, they have thus actually not much strength left to take care of the working capital requirements of private enterprises. On the other hand, the credit cooperatives set up everywhere by the Federation of Industry and Commerce are of limited scope and can therefore only provide what amounts to a drop in the bucket, as far as the private enterprises are concerned. Starting the said new bank is therefore an objective necessity. The said bank will submit to the macro-control of the central bank, i.e. the People's Bank of China, and will observe all the provisions of the Chinese "Law Governing Commercial Banks." On this basis he asserted categorically: the establishment of this private commercial bank is bound to become a pioneering undertaking within the reform of China's financial system and will be recorded as a historical event.

Small Scale Enterprises

Conditions, Measures To Develop Private Enterprises

94CE0791A Hong Kong CHING CHI TAO PAO
[ECONOMIC REPORTER] in Chinese No 36,
12 Sep 94 pp 10-12

[Article by Li Ding (2621 1353), Director of the Chinese Institute for the Study of the Private Economy: "The Present Circumstances of China's Private Economy, With Policy Recommendation"]

[FBIS Translated Text] Since the 1980s, following a period of development, China's private economy sputtered for a

short time. But following Deng Xiaoping's address, on his inspection tour of south China, and after the 14th National Party Congress, a rapid growth trend set in. The new state of affairs, that China's private economy is now facing, with its distinctive new features, problems of development, and countermeasures, are of concern to all segments of society. **A Favorable Environment for Development**

China's private economy came into being and developed under the guidance of Deng Xiaoping's theory of socialism with Chinese characteristics and within the larger context of reform and opening up. The major tenets of the theory, concerning the nature of socialism, the elementary stage of socialism, reform as the impetus behind socialist development, the objective of establishing a socialist market economy, etc., are pointing the way for reform and economic development in China. The growth of a private economy is an indispensable element of that. This theory, and its main constituent parts, resolved many of the psychological difficulties and doubts that had existed in the peoples' minds, and its results in practice had the power to stimulate a change in people's attitudes. Deng Xiaoping's speech during his southern tour in the Spring of 1992 and the opening of the 14th Party Congress caused China's reform and opening up and the construction of modern socialism to enter a new phase. Under these new circumstances the environment for the growth of China's private economy was even more favorable.

First, the political environment is relatively more relaxed. The Third Plenary Session of the Central Committee of the 14th National Party Congress, once again reaffirmed the need for an economy where various systems of ownership develop together, with the publicly-owned sector as the main element. It clearly pointed out that as far as China as a whole is concerned, the publicly-owned sector is the main element, but things may be different in some places and some industries. China must create conditions where enterprises with various systems of ownership can all compete equally in the market, and all kinds of enterprises are treated impartially. These determinations of the Third Plenary Session of the Central Committee, are necessary for the building of a socialist market economy. They settled a number of questions that were causing heated discussions in theoretical circles, and concern among the people. They have great and profound significance in guiding the development of China's economy, including its private economy.

Second, the policy environment has greatly improved. When the determinations of the Third Plenary Session are thoroughly implemented, this will certainly create an even better policy environment. Based on the Plenary Session's determinations, China has already taken major steps toward reform in such areas as taxation, finance, investment, and the planning system. Various related government departments will continue to make further reforms in their management systems and changes in their functions. The publicly-owned sector, and other sectors of the economy, all look forward to establishing an economic environment where there is equal competition and impartiality, establishing a system for macro adjustment and control, and reducing administrative interference. The

accomplishment of the above-described reforms, and improvements in related policies, will create a good environment for the development of the private economy.

Third, the climate of public opinion is steadily changing. Since the second half of 1992, China's 30 provinces, autonomous regions, and municipalities all made decisions to further develop the individual and private economy, and many townships, cities, and counties within each region also made corresponding decisions. The leaders of each province, autonomous region, and municipality and more and more leaders of townships, cities and counties came to recognize the necessity and importance of developing the individual and private economy because it helps to unleash and expand the productive forces and to arouse the initiative of the people, and is a major prerequisite to a socialist market economy. In prosperous areas, the private economy is a center for new growth and a source of real social production that cannot be ignored. In less prosperous areas and especially in old revolutionary base areas, minority areas, and border and impoverished regions, the private economy is an important means of escaping poverty and achieving wealth, bringing prosperity to markets, and stimulating the local economy. The fact that the leadership takes the private economy seriously has given it more momentum and will expand its influence on public opinion. In the public mind, traditional attitudes toward the individual and private economy are influential, and feelings of fear and aversion against it still exist. However, events as they unfold are changing the way people think. Major signs of a gradual change in public attitudes include the growing habit of thinking in terms of commodities, the expectation that individual human potential can be put to work in the market, and the thorough re-evaluation of the individual and private sectors of the economy.

China's private economy began to develop early in the 1980s. Its development at the present time displays the following new features:

1. Turnover is rapid, and value-added is high.
 2. Most enterprises are small, but large and medium-sized operations are beginning to appear.
 3. There have been recent changes in the personnel profile. A large number of workers at organizations, staff and workers at factories and retail stores, and specialists from educational, research, and cultural institutions are leaving their old units and entering the ranks of entrepreneurs.
 4. Growth in technical and service fields is accelerating.
 5. There is new development in organizational forms at enterprises. The number of limited liability companies in China has now reached 42,000.
 6. The influence of the private economy in politics, economics, and society is mainly at the local level. Again, there have been changes recently. In areas where the private economy is strong, it is a major support of the economy at the city and county level, and has become a major force in local political, social, and economic life.
- Policy Recommendations**

We should adopt the following policies in regard to the present situation and problems of the developing private economy.

1. We should aggressively employ Chinese funds to develop the individual and private economy, with a view to developing the forces of social production. China's total private savings has now reached 1.2 trillion yuan and the people have more than 400 billion yuan in cash on hand. This is something not often seen in developing countries. On the one hand, China is short of funds for investment, and on the other hand there is a huge amount of savings and currency sitting idle. This is something that must be taken seriously. At the same time, we should also draw in foreign capital aggressively and give it various kinds of favorable treatment.

Finance is the soul of the modern market economy. Currency reform will create the conditions for equal competition and impartiality on the part of the government. But in areas where town and township collective enterprises and individual and private enterprises are flourishing, it is a fact that a large amount of funds are in "external circulation." One reason for "external circulation" is that the amount of money that banks can lend is not enough to satisfy the demands of economic development. Since reform, discriminatory policies in commercial bank lending have been abolished but because China still wants to maintain an equilibrium in the total amount of credit, the amount of money available to lend remains limited. Therefore, we should permit the establishment of private financial institutions, absorb the funds in "external circulation," place them under the supervision of the central bank, and conduct business according to uniform laws and regulations. In this way, we can bring private financial organizations into the national financial system. We should permit foreign banks to come into China, as appropriate, permit many forms of ownership to co-exist over the long term, and permit private financial institutions to develop.

2. We should put various reform measures into action so as to improve the regulation and guidance of the private economy. In the areas of finance, taxation, investment, and the planning system, major steps toward reform have already been taken and reform programs in other areas will also continually appear on the scene. When China establishes the conditions for equal competition among enterprises of all sorts, there will be a major opportunity for the private economy to grow. But some cadres still harbor prejudice against the individual and private economy, a considerable portion of entrepreneurs still fear shifts in policy, and so on. These are conspicuous problems that will come up as we pursue reform. Therefore, we must clear away these psychological obstacles by educating the public, systematically and thoroughly, about the spirit behind the decisions made by the 14th National Party Congress, and the Third Plenary Session of the Central Committee. After the various reform measures have been implemented, it will still be necessary to enact laws covering them, using the law to guarantee the establishment of a socialist market economic system.

While China is pursuing a policy of encouraging the growth of the private economy, it should at the same time improve regulation and active guidance. Improving regulation mainly means to legalize, insisting that enterprises operate according to the law, pay taxes as the law requires, make distributions in a reasonable way, and deal correctly with problems of labor relations, and accumulation versus consumption so as to enforce good business practices and promote the growth of the private economy. Active guidance mainly means to use public opinion, macro economic measures, and industrial and technological policy to induce enterprises to be patriotic, conscientious, and law-abiding; to guide the direction of their development means to guide reform in enterprise management, and technical transformation. We should learn from the experience of a number of prosperous countries that have achieved success by supporting the growth of their enterprises while imposing strict legal regulation, thus promoting progress at their enterprises and improving their international competitiveness.

3. We should promote the coordinated development of eastern and western China and narrow the gap between the regions. For ten years now, the development of China's individual and private economy has been unbalanced between different regions. In 1992, China's eastern, central, and western regions, accounted for 69.85 percent, 18.99 percent, and 1.18 percent respectively, of the total number of private enterprises in China. The proportions are generally similar for registered capital, output value, and volume of business. In eastern China, the private economy must continue to develop in order to meet competition in the international market. It must work aggressively to adjust its industrial structure and its product mix, bring in new technology, and speed up the introduction of scientific management so that its enterprises may rise to a new level of quality. As for the central and western regions, they must strenuously develop the individual and private economy and foster new centers of growth.

4. We must make good use of the National People's Congress, the Chinese People's Consultative Congress, and groupings within society. There is a great deal involved in the basic system and function of the National People's Congress and the Consultative Congress. We must continually enhance and improve them, in keeping with events as they unfold, so that the number of representatives from the new social groupings will steadily increase, and the lawful demands of all interest groups will be heard. In this way, we will use democratic and consultative methods to mediate social conflicts and to arouse the initiative of all parts of society. At the same time, we must give recognition to, and make use of, the ability of groups within society to bring people together, provide services, mediate disputes, and discipline and educate themselves. To a certain degree, they can meet the people's economic and political needs and resolve social conflicts by providing communication, mediation, and services. We should promote order in the marketplace and the establishment of professional ethics through self-discipline and self-education. As reform proceeds, the demands and conflicts

of various interest groups will become even more apparent. To deal with these problems through various means is an extremely important task.

5. We must thoroughly accomplish the working plan for encouraging unity, and providing assistance, guidance, and education. As the non-publicly-owned economy has developed, there have been changes in the beliefs and values of the people so that the importance of the above-mentioned working plan is even more apparent. The work must begin with the most practical matters. In general, the people responsible for running everyday affairs at private enterprises are not highly qualified at present, supervision and management are relatively backward, services provided by society are seriously inadequate, and there are many things that are difficult to accomplish. In many places, experience has been that the best way is to adopt new ways and to work gradually, beginning with helping people to correctly understand situations and policies and providing information and consulting services. China must produce a large number of people who are both patriotic and possess specialized knowledge, who will champion the spirit of national self-reliance and innovation, protect the national honor, and keep faith in the future of their country. Private businessmen must be included among them.

Foreign Trade, Investment

MOFTEC Official on Japanese Investment

94CE0741A Beijing GUOJI MAOYI [INTERTRADE]
in Chinese No 8, 15 Aug 94 p 13, 17

[Article by MOFTEC Asian Affairs Department Deputy Director Guo Li (6753 5461): "Status and Trend of Japanese Direct Investment in China"]

[FBIS Translated Text] Among capitalist countries making direct investments in China, Japan is the first and also most important. After 1984 and 1988, Japan launched its third wave of investment in China beginning in 1991. One can say that Japan's direct investment in China has gone beyond the hesitant stage of making small-scale exploratory investments and has entered a new stage of expansion and making large-scale investment in a broad range of projects. This trend is particularly notable in the last two years.

Up to the end of 1993, the cumulative total of 7,182 Japanese direct investment projects represented 4.18 percent of all direct investment projects made by foreign countries and regions in China; the total of \$8.86 billion of Japanese capital negotiated accounted for 2.63 percent of the total foreign capital negotiated; and the \$5.17 billion of actual Japanese capital input was 4.81 percent of all actual foreign capital inputs. The number Japanese direct investment projects approved in 1992 almost equaled the sum total of all Japanese projects approved in the previous 13 years. In 1992, 1,805 projects were approved, with a total of \$2.173 billion of capital negotiated, and a total of \$710 million of actual capital input. 1993 saw greater gains: 3,488 projects were approved, with a total of \$2.96 billion of capital negotiated, and \$1.32 billion of actual capital

input, representing increases of 193.2 percent, 136.2 percent and 185.9 percent respectively over 1992. The scope of Japanese investments has also changed from concentrating mainly in the non-production type of projects in the early stage to the subsequent emphasis on labor-intensive light industries such as textiles and foodstuffs, and to the current stage of investing in infrastructural facilities and enterprises involving energy, transportation and natural resources, including some high-tech enterprises, and expanding into the fields of commerce, finance, and trading. Based on Japan's Finance Ministry's analyses of 1991-93 statistics, 56 percent of Japan's direct investments in China were in the manufacturing sector (electronics accounted for 16 percent, textiles 10.6 percent and machinery 6.5 percent) and 38.9 percent in the non-manufacturing sector (service industries accounted for 27.3 percent, non-liquid assets 4.5 percent). In terms of geographic locations, Japan's direct investments used to be located mostly in such places as Dalian, Beijing, Shanghai and Guangdong, but they are now moving away from these coastal cities to regions in the interior.

From an overall standpoint, of the 132 countries and regions with direct investments in China, and in terms of the number of projects and the amount of capital negotiated, Japan ranks fourth, with Hong Kong-Macao in first place, Taiwan in second place and the U.S. in third place. In terms of actual capital inputs, Japan leads all other investing countries and regions, and its projects have a relatively high success rate. Compared to other major investing countries and regions such as Europe and the U.S., however, the weak links in Japan's direct investment in China are the relatively late entry in the China market of Japan's major multinational corporations, the small amount of capital invested [relative to all Japanese investments overseas], and the conservative approach toward technology exports. The last point is clearly demonstrated by the fact Japan is well behind Europe and the U.S. in investing in China's automobile manufacturing industry. Also, the average capital amount per-project is considerably less than the per-project averages of other investing countries and regions; the average of \$830,000 per Japanese project puts Japan in eighth place among the 10 major investing countries and regions.

At present, the Japanese public views favorably the trends in China's economic development; they see a market economic system rapidly being established and increasing investment opportunities which further reinforce the appeals of the China market; furthermore, Japanese are confident that there will be no turning back in China's reform and opening, which reaffirms their faith in entering the China market and explains the current unprecedented drive toward investing in China. These are manifested mainly in terms of the following:

(1) Among Japanese-investment enterprises in China, the electronics and electric equipment enterprises in particular, many are expanding by building factories, offices and new production sites; (2) The number of projects with investment of \$30 million or more is increasing, e.g. Matsushita Electric's kinescopes, Nihon Electric's semiconductors, Konota's cement, Oboryu [2962 1191 7893],

etc.; (3) Japan's automobile industry, which heretofore was less than enthusiastic, is now drawing up plans for a speedy entry into the China market; e.g. Toyota Motors and Isuzu Motors plan to initially invest in spare parts and labor-added cooperative projects and later in the China's automobile repair and service market; (4) A number of large corporations have plans to make major investments in China; Ito Chu Trading, Mitsui Busan [properties development], Marubeni [trading] and others have proposed the objective of launching 100 investment projects in China as soon as possible, using the Nihon Major Manufacturers Alliance as foundation; (5) large, medium and small enterprises in Japan, many of which heretofore have had no business dealings with China, are now anxiously seeking to establish contacts and to expand cooperation in China; (6) Outside of the trading and manufacturing enterprises, in fields such as finance, commerce and trading, active efforts are made to speed up the pace of entering the China market.

In this context, Japanese radio and television frequently broadcast news reports concerning the Chinese economy; newspapers and other periodical publications carry a steady stream of stories and articles on this subject; Japanese regularly and actively attend lectures on different topics of China's economy and background briefings on investment in China which are held on a continuing basis. Numerous economic organizations—the Keidanren, Nihon Trade Council, Japan Trade Promotion Council, Sino-Japanese Economic Society, Nihon Chamber of Industry and Commerce, Japan International Trade Promotion Organization—and other similar organizations and their subsidiaries throughout Japan are vigorously promoting investment in China among Japanese businesses; the above-mentioned organizations conduct various research studies and analyses, sponsor all types of promotional activities, strengthen information and reference services to guide Japanese businesses in this area, and help them build bridges to and establish contacts in the China market.

It can be anticipated that the favorable trend of active Japanese direct investments in China will continue for a rather long period of time. For this trend is sustained by the mutually supportive economic relationships between the two countries: Japan's weak economic recovery and business structural readjustments will lead Japanese businesses to further speed up investment overseas; on the other hand, vigorous development in China's economy, its considerable potentials for even greater growth and its tremendous mass market hold great appeals for Japanese businesses. In terms of economic development, China also has the need to increase the imports of Japanese capital, technology and advanced management experiences; the cooperation therefore is mutually beneficial. China and Japan have already enjoyed a good relationship in terms of economic cooperation, and continuing to develop this type of cooperation will certainly make the best of use of the advantages of timing, geographic proximity and relationships between the two peoples.

It is without any doubt that the exchanges through the mechanisms established to promote investments supported by both governments, and the beneficial exploratory contacts and cooperation by both sides through the newly established structure at the Dalian Industrial Park, will help even more to promote investment in China among Japanese businesses. The future prospects of across-the-board cooperation between the two countries in the economic area are indeed unlimited.

Official Views Investment From Overseas Chinese

94CE0714A Beijing JINGJIXUE DONGTAI
[ECONOMIC DYNAMICS] in Chinese No 7,
18 Jul 94 pp 29-31

[Article by Huang Fanzhang (7806 5400 4545): "Use of Investment From Overseas Chinese and Relevant Policy Issues"]

[FBIS Translated Text] I. Economy in Hong Kong and Taiwan has become more and more closely linked with mainland China's economy since the development of the reform and opening program.

According to statistics compiled in Hong Kong, Mainland China has become Hong Kong's largest trade partner since 1985. Its share in Hong Kong's import and export businesses rose from 13 percent in 1980 to 25 percent in 1985 and 33 percent in 1992. Meanwhile, Hong Kong has become the mainland's largest entrepot port. Between 1980 and 1992, mainland China's reexportation trade through Hong Kong (from the supply of raw and semi-finished products to the offer of markets) sharply rose with an average growth rate of 33 percent per year. Mainland China's share in Hong Kong's reexportation trade increased from 43 percent in 1980 to 86 percent in 1992. The volume of across-Straits trade has also rapidly grown. The total volume of trade rose from US\$77 million for indirect trade in 1978 to US\$1.1 billion in 1985 and US\$7.42 billion in 1992 with an annual growth rate of 30 percent. Mainland China's volume of trade with Hong Kong and Taiwan witnessed new growths in 1993. Even now, it is still growing.

Investment to Mainland China from Hong Kong and Macao has always been at the top of the list of China's direct overseas investors. As of the end of 1992, the actual amount of direct investment from Hong Kong and Macao to Mainland China reached US\$21.2 billion, accounting for 61.4 percent of the total amount of investments directly made by overseas investors. Investment from Taiwan businesses has rapidly increased since the 90's. By the end of 1992, the negotiated value of such investment reached US\$5.54 billion with the value of investment actually put in place amounting to US\$1 billion, ranking the second and the fourth of China's total investments from overseas. The amount of foreign capital in China during 1992 was equivalent to the total sum of the foreign investments in the past 14 years. This figure in 1993 doubled that in 1992. During that period, the investment from Hong Kong and Taiwan still played a leading role. In addition, the investment is becoming larger and larger in scale.

It is worthwhile to emphatically point out that the rise and fall of mainland China's economic growth are exerting a greater and greater impact on the economy in Hong Kong and Taiwan, according to the records compiled since the mid-80's. The current trend shows that economically mainland China shares weal and woe with Hong Kong and Taiwan. The process of economic integration among the three has already begun and will be further developed.

II. How to fully understand and give full play to the role of trading with Hong Kong and Taiwan and the capital from them is of great importance to us for the further implementation of the reform and opening-up policy

In an article last year, I had put forward a strategic concept of "three triangular relations" in which I elucidated the situation of the three triangular relations we are confronted in the Asian-Pacific Region. The "three triangular relations" are the "large triangle" (China, the United States and Japan), the "medium-sized triangle" (China, the four little tigers and the ASEAN nations) and the "small triangle" (Mainland China, Hong Kong and Taiwan). I put forward the strategic idea of "relying on the small triangle", winning over the medium-sized triangle and dealing with the large triangle. Here, I particularly emphasized the need to fully "rely on the small triangle." That means we should help the three sides pool their resources, manpower, science and technology, funds, managerial experience and information and unify as one. This is a solid foundation to help the three sides achieve common goal in promoting economic prosperity and the reliable guarantee to achieving the reunification of the motherland.

III. Hong Kong, Taiwan and Mainland China have economic and social reasons to march toward economic integration.

From the historic, cultural and national point of view, the capital from Hong Kong and Taiwan should be regarded as a "special form of national capital." On the one hand, the owners of all these capital (assets) are of the same nationality. Both Taiwan and Hong Kong, just like any place on mainland China belong to the same "sovereign state", and they are an integral part of the Chinese territory. On the other hand, their capital is different from the ordinary national capital. It is special because of the fact that Hong Kong will only return to the embrace of the motherland in 1997 and it will take quite a while to reunify the two sides of the Taiwan Straits. This kind of situation has created a political barrier on the road of economic integration among Hong Kong, Taiwan and mainland China and made the capital from Hong Kong and Taiwan tainted with the color of "foreign capital" to a certain extent. Even after the reunification of the motherland, there will still be some differences between the capital from Hong Kong and Taiwan and that on mainland China. In despite of all this, we should not forget their essence as national capital. It is only a matter of time for them to go through the transition period from their "special form of national capital" to the ordinary form of "national capital."

IV. A "special policy" must be adopted in dealing with "special form of national capital" (capital from Hong Kong and Taiwan). That is to say that such capital should be given special consideration.

In general, preferential treatments usually conferred on foreign capital are given to capital from Hong Kong and Taiwan. Even more preferential treatments can be given to investors from Hong Kong and Taiwan. The preferential "national treatment" given to foreign investors (such as the banking business open to the outside world) should be conferred on Hong Kong and Taiwanese investors on a priority basis. All domestic markets ready to be open to foreign investors or products should remain open to Hong Kong and Taiwanese investors or products made in Hong Kong and Taiwan. All projects in the form of a cooperative or joint venture for the development of natural resources and infrastructure should be open to Hong Kong and Taiwan investors on a priority basis (such as projects for the development of petroleum resources in South China Sea.) Measures should be taken to protect the interests of Taiwan investors (such as the Law for the Protection of Taiwan Investors and so on). Hong Kong and Taiwan enterprises should be encouraged to cooperate with enterprises in the mainland to do business overseas or develop the overseas market. In short, all these mentioned above have the same starting point. That is, the capital from Hong Kong and Taiwan, which is tainted with the color of "foreign investment" today will become the pure national capital after several years; and to help and protect the Hong Kong and Taiwan investors today is tantamount to helping and supporting the national capital in China tomorrow. We are not only of the same ancestors and speak and write the same language, but also will belong to the same sovereign state and will be of the same nationality sooner or later. We must realize that investments from Hong Kong and Taiwan and enterprises in the mainland share the same roots in essence. They are essentially different from foreign investments. We should differentiate one from the other.

V. We should encourage two-way cross-Straits Investments.

In recent years, some people in Taiwan and Hong Kong are worried that the rapid flow of a large number of manufacturers in Taiwan and Hong Kong to the mainland together with their funds (especially those in labor-intensive industries) would wear the local industries hollow and hamper Taiwan's economic prosperity. This kind of worry is entirely groundless. Facts show that the flow of a large number of manufacturers from Taiwan together with their funds to the mainland helps give full play to their comparative advantage, reduce the pressure of higher labor cost on Taiwan's enterprises, raise Taiwan's labor productivity and its standards in high-technology and upgrade its industries. In fact, the best way to solve the problem of wearing Taiwan's industries hollow is to promote two-way investments. Particularly those in Taiwan's economic circles should urge the Taiwan authorities to accept and encourage offers from the mainland enterprises to make investments in Taiwan's enterprises in the form of high technology and some raw materials, and to develop cooperative or joint ventures with Taiwan's enterprises or even

run exclusively Chinese-funded enterprises in Taiwan. The Taiwan authorities should also adopt appropriate measures to protect investment from the mainland or promulgate the "Law For Protecting Mainland Investment." This will help not only improve Taiwan's industrial structure, but also quicken its pace in upgrading its industry. Naturally it should be realized that there are also many problems in bringing in and using funds from Taiwan and Hong Kong (such as the transfer of profits, tax evasion and so on.) Such problems are not to be ignored.

VI. We should distinguish investments from several categories of Chinese: investment from Chinese, Overseas Chinese and foreign citizens of Chinese origin.

Some people suggest regarding all "investments from overseas Chinese" as "investments from Chinese." I think that it is not so appropriate.

I regard the capital from Hong Kong and Taiwan as a "special form of national capital," because in a political sense, Hong Kong, Taiwan and mainland China belong to the same sovereign state. In a territorial sense, they assume an integrated territorial sovereignty, and both Hong Kong and Taiwan are an integral part of China's territory. The current state of separation is caused by historical reasons. The reunification of the motherland is only a matter of time. In this sense, it is appropriate to regard investments from Hong Kong and Taiwan (including Macao) as "investment from Chinese."

There are a large number of Chinese living overseas, particularly in Southeast Asia. Most of them live abroad for a long time engaging in all types of businesses. They have completely integrated themselves economically and socially with the local economy and society. A few of them are enormously wealthy, and they have solid economic strengths and are economically influential in the country where they reside. Some of them still retain their Chinese nationality. When these people make investment in China, such investment should be regarded as capital from overseas Chinese, which is different from the capital from Hong Kong and Taiwan. In spite of the fact that they themselves are of Chinese nationality, they still must observe and are protected by the laws and decrees enacted by the government of the country in which they settle, since they have lived there for many years. We welcome overseas Chinese to make investment in building the motherland, and we have specific overseas Chinese policies in dealing with overseas Chinese and the capital from them. Judging from either the current or future conditions, we should distinguish the overseas Chinese capital from the capital from Hong Kong and Taiwan. On the issue of regarding the capital from Hong Kong and Taiwan as investment from Chinese, I would rather call the capital from Overseas Chinese as "Overseas Chinese capital" in order to distinguish one from the other.

As for the large number of Chinese who have changed their nationality, they in essence are no longer overseas Chinese. They are foreign citizens of Chinese origin. In spite of the fact that they still maintain ties with their relatives and friends in China, their investment in China should, in

essence, be listed as foreign capital. I would call it investment from foreign citizens of Chinese origin or foreign investment from people of Chinese extraction.

In short, the situation regarding the investment from overseas Chinese is rather complicated. At least it can be classified as capital from Hong Kong, capital from Taiwan, overseas Chinese capital and investment from people of Chinese extraction (foreign capital from people of Chinese origin). We should not generalize all such capital as "investment from Chinese."

VII. Wording of "Great Economic Circle of China" should not be used.

In an article last year, I had explicitly voiced opposition to the use of the term "Great Economic Circle of China," because this term is not clearly defined. Many people incorporate the overseas Chinese economy in Southeast Asia into this circle. This will easily cause misunderstanding, doubts and misgivings of the Southeast Asian nations. Particularly in recent years, China's economy has continued to grow rapidly. While praising China's economic achievements as "gratifying" and "admirable", some people abroad regard China as "frightful." Those who uphold this theory of "frightful China" basically mix the overseas Chinese economy abroad with China's domestic economy and the economies in Hong Kong and Taiwan. They say glibly that with its rapidly developing economy, China will make use of the overseas Chinese economic strength to build a "Great Economic Circle of China" and a "Chinese economic empire without national boundary." Some people even claim that China will use the overseas Chinese economic strength as the "Fifth Column" of this "economic empire." This is really an alarmist talk! This thesis is obviously ridiculous, because the "economic circle" involves issues of sovereignty and territory. How can a sovereign state pull a part of the economic strength of another faraway sovereign state to its side and form an "economic circle"? By the same token, it is impossible for Israel to pool all the Jewish economic strengths in the United States, Russia and Western Europe to establish a "Jewish Economic Circle." The "small triangle" (Mainland China, Hong Kong and Taiwan) which I mentioned before are districts of the same sovereign state. They are totally different from the "Great Economic Circle of China" which incorporates the Chinese economy of other sovereign states in its orbit. They make use of the "Great Economic Circle of China" to concoct the theory of a "frightful China." Their possible motives and ideas may not be the same. However, some of them really try to make use of this to drive a wedge between China and the Southeast Asian nations. Therefore, we should not use the term "China Economic Circle" and be careful not to fall into other people's trap.

From this, we can see that there is a greater need for us to strictly distinguish investments from different categories of Chinese which include investment from Chinese, from overseas Chinese and from foreign citizens of Chinese origin so as to avoid misunderstanding and providing others with readily exploitable loopholes.

(Unit where the writer of this article works: Economic Research Center of the State Planning Commission)

(Editor responsible for this article: Zhan Xiaohong 6124 1420 3163)

Article Reviews Walt Disney IPR Case

94CE0739A Beijing XIAOFEI SHIBAO in Chinese
13 Aug 94, p 1

[FBIS Translated Article: "Mickey Mouse Charges Into Beijing Court—The First Open Court Trial of a Copyright Suit Brought by a US Company in China"]

[FBIS Translated Text] The representative of the U.S. Walt Disney Company in Beijing purchased some children's picture books at Chinese book stores and publishers. Disney cartoon characters were used in the books. With that as proof, the Disney Company in January of this year brought a copyright suit in the Beijing Municipal Intermediate People's Court Intellectual Property Court, charging that Beijing Children's Publisher, Beijing Publishing House, and the Xinhua Bookstore Beijing distributors infringed on their copyright. Disney Company's intention in doing this was to test China's promise that it would strengthen enforcement protection for intellectual property rights.

On 3 August 1994, the case was tried in open court in the Beijing Municipal Intermediate People's Court Intellectual Property Right Court. The court determined that some of the works of the accused infringed on the rights of the plaintiff.

Suit transcript: On 20 December 1993, the Beijing representative of the plaintiff purchased nine children's picture books from the Beijing Publishing House. They are *Bambi*, *Dumbo*, *Cinderella*, *Lady and the Tramp*, *Alice in Wonderland*, *One Hundred and One Dalmatians*, *Peter Pan*, *Snow White and the Seven Dwarfs*, and *Sleeping Beauty*. (The book titles had all been altered.) This set of picture books was published by the Beijing Children's Publishing House and distributed by the Xinhua Bookstore Beijing distributor. The picture books described above, published, distributed, and sold by the three accused, used the images of world famous cartoon characters. They include (1) Mickey Mouse, (2) Cinderella, (3) Peter Pan, (4) Snow White, and numerous other characters. It is common knowledge that all of these cartoon characters are the artistic creations of the U.S. Walt Disney Company. Copyrights for these works have been registered in the United States.

The Walt Disney Company has never authorized or agreed to the Beijing Children's Publishers' publishing and selling picture books containing images of their cartoon characters or using their works of art protected by copyright. Similarly, Walt Disney Company has never authorized or agreed to the Beijing Publishing House and the Xinhua Bookstore Beijing distributor's selling the picture books published by the Beijing Publishing House and other picture books infringing on the plaintiff's copyright. By detailed comparison, it was discovered that the picture

books published, distributed, and sold by the three accused are total reproductions of Walt Disney Company published picture books.

Disney Company later brought an additional suit on the Disney children's books published by the Beijing Publishing House.

The Beijing Publishing House's agents in the suit, Junhe [0689 0678] Law Firm's Wang Yadong [3769 0068 2639] and Beijing Municipality Zhongbei [0022 0554] Law Firm's Ren Liying [0117 7787 4481] believe that what the plaintiff is requesting in the suit exceeds the scope of legal protection. There is a time limit to the protection that works of U.S. citizens receive in China from the copyright law and other related regulations, and within that, publication and sales have different time limits.

Lawyer Wang Yadong said that the Chinese and United States governments signed the Memorandum of Understanding On Intellectual Property Rights Between the People's Republic of China Government and the United States of America Government on 17 January 1992. Article Three, Section Nine of the Memorandum specifies that, beginning sixty days after the Chinese and the United States governments sign the memorandum, the works of the other country's citizens will be protected by their respective laws. That is, the works of United States citizens receive the protection of the Chinese Copyright Law and related regulations beginning from 17 March 1992.

Beginning 15 October 1992, China implemented the Berne Convention for the Protection of Literary and Art Works. After that the State Council also promulgated the Regulations for the Implementation of International Copyright Agreements and the State Copyright Office issued a notice based on the State Council Regulations for the Implementation of International Copyright Agreements on continued use of special reproductions and specified that beginning 15 October 1993, the sale of special reproductions of foreign works should receive the authorization of the original copyright holder. So, we can reach the following conclusions:

The works of United States citizens receive the protection of the Chinese Copyright Law and related regulations beginning 17 March 1992. Before that, authorization is not required to publish works and the rights of works of United States citizens sold before 15 October 1993 and published before 17 March 1992 are not infringed. So, the request in the plaintiff's suit exceeds the scope of legal protection and the premised conditions for seeking the pursuit of infringement responsibility do not exist.

The two lawyers, Wang Yadong and Ren Liying, believe that [the actions of] the Beijing Publishing House, including the Children's Publishing House do not constitute infringement of the plaintiff's copyright. The Beijing Publishing House and the Great World Publishing Company, Limited concluded an agreement to publish the *Disney Moral Stories Series*.

On 21 March 1991, Beijing Children's Publisher representative Liu Ziwu [0491 5261 2976] and Great World Publishing Company, Limited's Cai Zhenseng [5591 2182

3932] concluded an agreement to publish Disney children's books. The agreement specified the rights and duties of both parties and was sealed by both legal persons. Article Two of the agreement specified that "Party A (the Great World Publishing Company, Ltd.) will provide Party B (the Beijing Children's Publisher with a contract for outside confirmation of publishing rights to three series, giving Party B legal basis for publishing rights in Chinese territory." At the same time, Great World Publishing Company, Limited acting alone obtained a publishing contract signed by the Maxwell Communications Company, Ltd. (Hong Kong) representative. The contract confirmed that Maxwell Communications Company, Ltd., with the US Disney Company's authorization, possessed publishing authority for the Chinese translation of Disney children's books and was the authorized agent for trading the publishing rights of the books.

The plaintiff in the suit said that in 1987 Walt Disney Company and a British company, the British Translation Publishing Company (This company later became Maxwell Translation Company), signed a licensing contract permitting Maxwell Translation Company to publish and distribute a set of approximately thirty picture books in China. This set of picture books contained several images of Walt Disney Company cartoon characters. In June 1991, Maxwell Translation Company had stopped publishing and selling this set of picture books. Since that time, the plaintiff has never authorized or agreed to anyone, including the three accused, republishing, distributing, and selling these picture books in China.

Lawyer Wang Yadong said that the agreement between Beijing Publishing House and the Great World Publishing Company, Ltd. agreement company should be an invalid contract and the invalid responsibility that it created must be distinguished.

As specified in the 21 March 1991 agreement between Beijing Publishing House and the Great World Publishing Company, Ltd., Great World Publishing Company, Ltd. was responsible for arranging copyright authorization for publishing Disney children's books. It was proven by such means as court investigation and evidence produced that Great World Publishing Company, Ltd. did not do its duty of providing copyright authorization to the utmost and did not obtain authorization, causing the bilateral agreement to be invalid, thereby causing the invalidity of the contract to be totally the responsibility of Great World Publishing Company, Ltd.

The agent of the accused believes that Great World Publishing Company, Ltd. should assume unshirkable responsibility in this case. The reason is that publishing the Disney children's books was a common effort of Beijing Publishing House and Great World Publishing Company, Ltd. and the two parties had a publishing agreement. According to the specifications of the Beijing Publishing Company, Ltd's agreement, obtaining authorization to publish Disney children's books was the official responsibility of Great World Publishing Company, Ltd. The Great World Publishing Company, Ltd. is the actual doer of the principal facts in this case, including the fact that Maxwell

Company, Ltd. was related to it alone. So, it is very difficult to imagine that Great World Publishing Company, Ltd. is not accused in this case, and what kind of consequences can it bring to this case.

The plaintiff's agent said that whether to sue or not is the plaintiff's right.

The Xinhua Bookstore Beijing distributor in court said that the evidence proves that we are not the distributor, but one of the sellers. There is an error in the printing of the book. The plaintiff is suing us based on mistaken evidence. We should not be accused. If sellers should be accused, twenty-five should be sitting in the seat of the accused. Current law still has not specified whether or not sellers of picture books should obtain a copyright license. If every book that is sold has this kind of examination, how could it be sold? At the same time, the requests of the plaintiff's suit exceed the scope of legal protection.

After a trial of more than two hours, the court announced that the accused's publishing of works for which Disney has the publishing rights before the Memorandum of Understanding on Intellectual Property Rights Between the People's Republic of China and the United States of America went into effect does not constitute infringement of the plaintiff's rights, but the works published after the Memorandum went into effect should bear infringement responsibility. As regards the accused's request that the Great World Publishing Company be added as a joint accused, the court believes that the Great World Publishing Company in this case is a third party without independent rights to request. The court announced that it will continue to try this case.

Agriculture

State Adjusts Cocoon Prices

94CE0707B Beijing ZHONGGUO TANGZHI BAO
in Chinese 18 Jul 94 p 1

[Article by Bian Shi (6708 2514): "State Adjusts Purchasing Price for Mulberry Silk Cocoon"]

[FBIS Translated Text] In order to protect silkworm breeders' interest and guarantee the supply of export goods, the State Planning Commission has decided to appropriately raise the purchasing price of mulberry silkworm cocoon when the new cocoon season begins in 1994.

1. The national purchasing price of mid-grade fresh mulberry silkworm cocoons, which are priced on the basis of dry cocoon weight, (9.2 gram dry weight and 100 percent usage rate) is raised from 440 yuan to 650 yuan per 50 kilograms. The purchasing price of mid-grade mulberry silkworm cocoons, which are priced on the basis of cocoon layers (21 percent cocoon layers and 100 usage rate) is raised from 430 yuan to 640 yuan per 50 kilograms. The price differential between the above pricing methods remains the same.

2. In some areas of Zhejiang and Jiangsu provinces where the policy of "unified marketing of cocoons and pricing

according to the rate of silk production" is being implemented on a trial basis, the price of fresh cocoons of 1 percent silk production rate is raised from 35 yuan to 51 yuan.

3. The above adjusted prices include 8 percent of agricultural tax for special local products

4. In purchasing mulberry silkworm cocoons, all localities must strictly enforce the state pricing policy and quality standards, pricing strictly according to quality, and strictly forbid raising or reducing grades and prices indiscriminately.

Grain Forward Price Lower Than Spot Price

94CE0707A Beijing ZHONGGUO WUZI BAO
in Chinese 8 Jul 94 p 3

[Article by Cheng Tan (4453 0982): "Rice Forward Price Is Lower Than Spot Price; Mung Bean Plummeted 700 Yuan Per Ton"]

[FBIS Translated Text] In June the price of nonglutinous long-grain rice at the Shanghai Grain and Edible Oil Exchange was divided by the state grain and edible oil price adjustment on June 10. Before the adjustment, the price of nonglutinous long-grain rice was stable while falling slightly. After the adjustment, it slowly increased. At the Dalian Commodity Exchange, the rice price rose throughout the whole month of June and slowed down slightly toward the end of the month. In early June, forward prices of nonglutinous long-grain rice at Shanghai were respectively 1,980 yuan, 2,233 yuan, and 2,241 yuan per ton for four-month, six-month, and nine-month deliveries. By the end of June, the above prices changed to 2,043 yuan, 2,241 yuan, 2,270 yuan per ton, increasing by 3.2, 0.3, and 1.3 percent respectively. The rice price in Dalian was lower than that of Shanghai, but the increase rate was greater. In early June, rice forward prices at Dalian were respectively 1,795 yuan, 1,923 yuan, and 1,950 yuan per ton for one-month, three-month, and five-month deliveries. By the end of June, these figures changed to 1,880 yuan, 2,054 yuan, and 2,175 yuan per ton, increasing by 4.7, 6.8, and 11.5 percent respectively.

The current price hike of rice is in general normal because: 1) Forward rice price is markedly lower than spot price which is between 2,200 yuan and 2,300 yuan per ton. The forward rice price for four-month delivery at Shanghai is about 200 yuan lower per ton than the spot price. Forward rice prices for six- and nine-month deliveries remain basically the same as spot prices. Dalian's prices are even lower. 2) The increase rates are within the normal margin and lower than the increase rates of recent state grain price readjustment. Most local areas have raised list price for grade-A rice from 1.66 yuan to 1.94 yuan per kg, increasing by 16.9 percent, which is much higher than the increase rate of futures market. 3) Supply is tight on the spot market. Floods in Southern China have made traders pessimistic about substantial increases in grain production. 4) Rice price is on the rise on the international market, and rice export has shown some increase. 5) Price in general is higher now, and cost for means of agricultural production and reserves is also higher.

Contrary to the bull market of rice this month, mung bean price of Zhengzhou has plummeted all the way. Prices for three-month and five-month futures dropped from 2,484 yuan and 2,292 yuan per ton to 1,758 yuan and 1,766 yuan per ton, declining by 726 yuan and 526 yuan per ton respectively.

Guangxi Reports Autumn Grain Area

95CE0013L Chongqing XINAN JINGJI RIBAO
in Chinese 29 Sep 94 p 1

[Summary] At present the autumn grain area in Guangxi totals 27,753,100 mu, an increase of 2,189,300 mu, or 8.6 percent over 1993. The late rice area is 17,113,900 mu, the semilate rice area is 2,040,500 mu, and the corn, soybean, and other dry grain area is 8,598,700 mu. The late hybrid rice area is 12,366,100 mu, accounting for 72.3 percent of the late rice area. The semilate hybrid rice area is 1,547,200 mu, accounting for 75.5 percent of the total semilate rice area, and is an increase of 127,000 mu over 1993.

Hubei Anticipates 'Good' Cotton Harvest

OW1910113894 Beijing XINHUA in English
1123 GMT 19 Oct 94

[FBIS Transcribed Text] Wuhan, October 19 (XINHUA)—Central China's Hubei Province is expected to have a good harvest of cotton with total output reaching 500 million kilograms this year, 50 million kilograms more than that of last year.

By the date of October 10, the province purchased 160 million kilograms of ginned cotton from farmers, 45 million kilograms more than that of the same period last year.

As a major cotton producer of China, Hubei planted over 500,000 hectares of cotton this year, 14,000 hectares more than last year.

The raising of purchase price by the state has stimulated the initiative of farmers in cotton production. Farmers have also adopted new technology and scientific means in cotton planting.

The province's farmers successfully fought against droughts and bollworm in mid-July.

Liaoning Fertilizer Price Problems

94CE0707C Shenyang LIAONING RIBAO in Chinese
11 Aug 94 p 6

[Article by Ding Xiaoguang (0002 2556 0342) and Lin Yan (2651 1484): "Chemical Fertilizer Price Soars Again and Overburdened Farmers Cry Out: 'Who Will Hold Back This Runaway Horse?'"]

[FBIS Translated Text] As food for grain, chemical fertilizer plays a decisive role in modern agricultural production, and its price changes have a special impact on farmers' nerves and enthusiasm for production.

Since the beginning of 1994, the chemical fertilizer market of Liaoning Province has witnessed a situation where prices increased too fast and too high, dampening farmers'

enthusiasm for grain production. Farmers are at a loss. The state stresses the importance of agriculture, but why is the price of the means of agricultural production rising so fast and why is market so chaotic? With this question in mind, we conducted a special investigation in seven cities and 14 counties and districts.

With enterprises' production cost going up, small-scale production of chemical fertilizer in Liaoning Province is declining, and many small chemical fertilizer plants have either shut down or switched to other lines of production one after another. Very few of them are still operating. As far as large chemical fertilizer plants are concerned, higher production cost is one factor. The other factor is that after changing from specialized to general management, the supply and marketing system has to face a series of new problems such as funding and transfer and is therefore forced to market products to other provinces to seek new marketing partners. In the meantime, this year's exchange reform and border trade changes have caused fertilizer import to be less than last year. In addition, the price of chemical fertilizer has only increased, not declined. The agricultural development of "two high and one outstanding" in Liaoning Province is another cause for increases in the use of chemical fertilizer. The abovementioned factors have caused a general shortage of chemical fertilizer supply in Liaoning Province this year.

Between November and December 1993, panic purchasing occurred everywhere due to the factor of value-added taxes, which used to cause the prices of chemical fertilizer and grain to rise in the past. (Value-added taxes should be kept within price limits. Insufficient publicity had caused people to panic.) On the three days of 20, 21, and 22 of November, Zhangwu county sold 3,000 tons. This phenomenon quickly spread to production areas, causing Panjin and other chemical fertilizer producing areas to start raising prices in the face of panic purchasing. Local inventories were exhausted one after another. While inventories were being replenished, the state introduced the value-added tax, and the lowest factory price was 1130 yuan per ton. Management units with sufficient funds were able to buy the cheapest chemical fertilizer in 1994. Taking advantage of the loopholes in state policies, chemical fertilizer plants established one after another companies of all descriptions to resell chemical fertilizer at higher prices for profits, giving rise to a situation where chemical fertilizer price went up as supply went down and demand increased. For instance, the lowest price of Liaohe urea at county-level farm supplies companies was between 1130 and 1150 yuan per ton when the value-added tax was first introduced. In April the price went up to 1420 yuan and in May it was 1480 yuan. By June it was 1530 yuan per ton. Even at such prices, goods were not available unless there was some personal connection. There were also factors like whether or not an invoice was made out or whether there was any charge for favors, etc. It was understood that between March and June a certain chemical fertilizer plant charged 1150 yuan per ton plus an additional of 150 yuan if the invoice was made out to a supply and marketing company. In early 1994, imported ammonium II (er an (0059 6941)), which was very popular with farmers in

Liaoning Province sold for about 2000 yuan per ton in most areas of Liaoning Province. By May and June, the price already went up to 3000 to 3200 yuan per ton. Chemical fertilizer price has been going up and up and has come to the point where it is unbearable. The highest retail price of Liaohe urea reached 2000 yuan per ton in some counties and districts of Chaoyang Prefecture. Even in areas where prices were lower, such as Lingyuan, Changtu, and Liaozhong, the retail price was also close to 1700 yuan per ton, almost two times as high as that of 1993. In 1993, urea cost 1150 yuan and ammonium II cost 1460 yuan per ton. In 1994, urea cost 1700 yuan and ammonium II cost 3000 yuan per ton. Calculated on the basis of these figures and assuming that the amount of chemical fertilizer used is unchanged, chemical fertilizer cost 49.1 yuan per mu in 1993 and 81 yuan per mu in 1994, an increase of 31.9 yuan or 65 percent. Assuming that per-mu yield of corn is 1000 jin, chemical fertilizer alone will cause production cost of corn to go up by 3 fen for each 500 ke of corn. Other cost such as seeds, pesticide, mechanical operations, and land contract fees will cause the production cost of corn to go up an additional 3 fen for each 500 ke. If there are any other factors of inflation, the price increase of 9.6 fen for each 500 ke of new grain allowed by the state will be basically offset or cancelled out.

A Major Cause for Skyrocketing Price Is Confusion in the Marketing Channels of Chemical Fertilizer

The land of Liaoning is filled with the smoke of gunpower of the great war of chemical fertilizer. Chemical fertilizer is handled by many entities through many channels. The state, collectives, and individuals are all in this game. Each county has several hundred dealers. This has seriously interfered with the normal order of chemical fertilizer circulation market. A main feature of the market disorder is that the dealers do not care who the purchaser is. They would sell to whoever has the money. The forms of disorder and the causes of price increase can be summarized into the following categories:

Initial disorder at manufacturers'. Manufacturers supply goods first to their supply and marketing companies or service companies which transfer goods to their subsidiaries. The subsidiaries then sell the goods themselves or jointly with local marketing units. Their wholesale price is 200 yuan or more higher than the price limit. Dealing with these companies, all localities are angry but dare not speak up. In order to guarantee local production needs, they have no option but pay the high price.

More disorder at middle links. Localities buy at a high price and sell at a higher price. They also resell goods to each other for profits, worsening the problem of a price hike.

Resale within a county. Generally county-level farm supplies companies will sell wholesale to sales departments under their own or other companies. Some county-level companies sell wholesale to their own county and cooperative development companies which then sell wholesale to grassroots cooperatives or retail stores. Most farm supplies companies we investigated do their own marketing. Restricted by enterprise interest, farm supplies companies

flaunt the banner of serving agricultural production but would sell their goods to whoever has the money. Their sales prices usually exceed regular price differences. What is worse, some simply charge retail sales prices regardless of the amount of sales or who they are selling to, thereby causing the prices to go even higher.

Resale between counties and districts. The price level is lower in the south, higher in the north, and highest in the east and west in Liaoning Province. And, whoever has the goods do not necessarily have to sell them locally. They can sell them to whoever pays the highest price. As a result, ammonium chloride which sells for 480 yuan by manufacturers can sell for as high as 640 yuan after several resales. The characteristic of this year's market is that whoever has the goods makes money. In the first half of 1994, a certain county-level company procured 50,000 tons of chemical fertilizer. Not only did it charge retail prices but it also sold nearly one half of its goods to farm supplies companies and other dealers in other counties. These dealers then resold the goods to other wholesale dealers. Some areas witnessed a phenomenon unseen for many years—goods being transported back to their place of origin. In early 1994, most farm supplies companies were able to procure their goods at a reasonable price. But since they did not care who they sold the goods to and emphasized only if they got paid quickly, they sold everything they had. After getting the goods, dealers with or without license then resold them at a higher price. Some even sold the goods right in front of farm supplies companies, blocking the door. After several resales like this, imported ammonium II is sold for 3200 yuan per ton and Liaohe urea is sold for 2000 yuan per ton in eastern and western areas of Liaoning Province.

Internal marketing channels of "monopoly" organizations are chaotic, disrupting normal circulation order. Relying on the advantages of abundant funds and supply, these organizations not only add a link to the circulation system but also fail to keep their promises in sales. They generally do not sign any contracts. They just make verbal agreements. For instance, a certain city farm supplies company agreed in early April to sell 100 tons of ammonium II to a county company at the price of 2000 yuan a ton. Before the truck was there to pick up the goods, a phone call was made and the price was changed to 2080 yuan per ton. When the truck arrived, the price was changed again to 2200 yuan per ton. Things like this happened all the time. Different departments of these organizations compete with each other to sell chemical fertilizer, forming a marketing situation of "a hundred flowers blossom." These organizations have authority, abundant funds and supply. The level of their prices has a definite and direct impact on the level of market price.

High import price is also a contributor to higher prices. Due to the uncertainty of orders made in early 1994 plus the excessively high prices and untimely delivery of local manufacturers, county-level farm supplies companies hesitated to make any purchase. But in order to meet local production needs, they had no choice but to purchase from other provinces. For instance, Chaoyang Prefecture purchased most of its late topdressing from Yutian of Hebei Province, including urea produced in Urumqi, Yinchuan,

and Shandong, and chemical fertilizer produced by small enterprises in Hebei Province. Since purchasing time was short and demand was large, prices were generally higher than order contract prices. Therefore, imports from other provinces have also increased local sales prices of chemical fertilizer and farmers' burden.

Chemical Fertilizer Market Management Is Inefficient

As far as most areas are concerned, markets of means of farm production lack management. Basically they are not managed. Prices are generally higher than the allowed price differences. Retail prices are of course totally out of control. Dealers operate without license on the market. Imitations and inferior goods are all over the market. Farmers are moaning and groaning. This phenomenon can be attributed to two reasons: one is inadequate attention of local government; the other, insufficient enforcement of relevant policies such as price management. Comrades at grassroots units mostly reflect that since prices at the provincial level are not under control, if lower levels try to control the price, they are afraid that they will not be able to get any goods and county heads will be upset with them. Facing the soaring inflation, some people think that since grain prices will go up, it is okay to raise the price of means of production. No clear-cut regulation and control measures are available for resolving the problems of chaotic marketing channels. This has provided a good opportunity for dealers to engage in illegal resale.

The government should increase the intensity of overall regulation and control over market, strengthen the management of farm supplies market, and let farmers really feel that the party and the government have paid great attention to agriculture. Judged from the practice of government strengthening control over market in Lingyuan and Liaozhong counties, advantage is greater than disadvantage. First, farmers have gained real benefits and reduced their burdens. Second, market is under control, circulation of imitations and inferior goods, stopped, the function of main channels, protected, and tax and profit delivery, guaranteed. Decontrol does not equal no control. As long as the government is determined to unclog marketing channels, stabilize supply and prices, and turn market disorder into order, agricultural production of Liaoning Province will develop soundly.

Grain Import, Export Strategy

94CE0719A Beijing GUOJI MAOYI [INTERTRADE]
in Chinese No 8, 15 Aug 94 pp 36-38

[Article by Li Yongjiang (2621 3057 3068), International Trade Research Institute of the Ministry of Foreign Trade and Economic Cooperation: "China's Grain Import and Export Trade"]

[FBIS Translated Text] The History and Present Situation of China's Grain Import and Export Trade

The history of China's grain import-export trade shows that it has in general passed through four stages. The first stage was the 1950's, when virtually all trade was export, with very little imports. The statistics show that during the decade 1950 to 1959, China exported a total of 22.8

million tons of grain, 2.2 million tons annually, while importing 840,000 tons. The second stage was from 1960 to 1976. At this stage, China's grain imports were greater than exports; we exported 41.43 million tons and imported 84.9 million tons, an average import volume of 2.56 million tons each year. The third stage was from 1977 to 1983, and this period was basically a time when a great deal of grain was imported into China and very little export. China imported a total of 87.04 million tons of grain during that seven years, while exporting 11.06 million tons. Imports averaged 10.85 million tons each year. The fourth stage has been from 1984 to 1993. In this stage, China reduced its grain imports and increased exports, and during some years even becoming a net grain exporting country. During the past ten years, China imported a total of 118.41 million tons while exporting 84.42 million tons, with an average net import of 3.4 million tons. What is spectacular is that China's grain imports have declined annually since the beginning of the 1990's, while the volume exported rose considerably. In the biennium 1992-1993, China became a net grain exporting country; moreover, in 1993, the net volume of grain exported was as high as 6 million tons, a miracle in China's grain trading history.

Looking at the changes during the four stages of China's grain trade development, China's grain import-export trade has fluctuated greatly. This is closely related to differing domestic agricultural policies and economic development models at different periods of time.

There were also major changes in China's import-export trade. Historically, rice was the chief export product, usually occupying 45 to 75 percent of China's annual grain exports. However, starting in the mid-1980's, rice's proportion of China's grain export declined every year, dropping from 72 percent in 1980 to 1 percent in 1993. Meanwhile, the amount of China's corn exports increased dramatically: in 1983, China's corn exports appeared to be very small, but by 1993 it was up to as much as 11.1 million tons, which was 84 percent of China's grain exports. At present, China has become the world's second largest corn exporting nation after the United States. China's corn exports are chiefly concentrated in other Asian countries. For example, Russia and Korea are China's biggest corn importing customers: in 1992, China exported 4.144 million tons of corn to Korea, which was 41 percent of China's corn exports for that year. Next is Japan, at 2.154 million tons, which was 21 percent.

The principal grain imported to China is wheat, which usually constitutes over 90 percent of China's total grain imports. China imports wheat from chiefly Canada, the United States, France, and Austria. Based on Chinese customers' statistics for 1992, China in that year imported about 5.67 million tons of wheat from Canada; this occupied 53.6 percent of the total of China's wheat imports for that year and made it the leader. Next was the United States: in 1992, China imported 3.3344 million tons of wheat from the United States, which was 31.55 percent of China's wheat imports for the year.

China's Grain Import-Export Strategy

Establishing China's grain import-export trade strategy involves a series of important issues, including China's future economic development model, fundamental domestic situation, agricultural policies and grain production output, etc.

At present, although the gross amount of China's grain imports and exports trade is large, the amount per capita is small, plus it continues to decline. China currently has a total area of 144 million mu under cultivation, 479 million mu of grass land, 187 million mu of forested areas, and 2,614.4 billion cubic meters of water resources. The per capita agriculture resource occupied is lower than the average worldwide. Considering such factors as the potential development of cultivatable wasteland and the affect of currently cultivated farmland being converted to other uses, population change, etc., it is forecast that from the end of the century to the year 2020, the per capita amount of agriculture resource occupation will still be in a declining trend. Preliminary forecasts are that, by 2000, the per capita cultivated land occupied will be one mu, grassland 3.7 mu, forested land 1.4 mu, and water resources 2,200 cubic meters; and in 2020, the per capita occupation amount for the above-mentioned resources will be 0.9 mu, 3.2 mu, 1.2 mu and 1,740 cubic meters respectively. When one adds in such factors as uneven water and soil distribution, low resource quality, severe environmental pollution and deterioration of natural ecology, etc., it presents a rather grim situation for the development of Chinese agricultural production, especially grain production. Looking at consumption demand, because China has nearly one-fourth of the world's population, huge population pressure is causing China's consumption level for grain, meat and major agricultural products to be considerably lower than the world's average consumption level. Therefore, in the future, there will be at least three basic conditions which will not change: one is that every year, the gross increase in population will be more than 15 million; two is the declining trend in amount of cultivated land; three is that the per capita grain occupation amount will be around 400 kg. These three conditions determine that we should not ignore the issue of grain in China, for the future grain supply will not be too optimistic. For quite some time into the future, China's grain supply will not be abundant; we will still have to import some grain. What this means is that China will still be incapable of grain self-sufficiency.

In recent years, China has carried out the new grain importing policy: starting 1 April 1993, China put into effect the agent system for grain imports, abolishing the grain import subsidies to the provinces and municipalities, with the result that in 1993, China's wheat imports dropped dramatically.

At the core of China's grain import-export trade is the issue of grain imports, so in the future the focal point in establishing China's grain import-export trade should also be on the grain import strategy.

At present, there are many countries in the world incapable of grain self-sufficiency, and while the strategies and

measures they adopt for grain imports may vary, they can be classified basically as one of the following three types. One is to import a reasonable amount steadily over the long term. This means drafting a medium-or long-term grain import plan in accordance with a possible increase in the pace of their domestic grain production and changing demand, keeping the amount imported stable, even and appropriate each year. In order to be more economically efficient, the governments involved usually should sign long term grain trading agreements. Two is to make the most of the opportunity. What this means is to purchase a lot of grain when it is low-price in the international market. This way usually centers on commercialized temporary purchasing; it is very random in nature, and requires the construction of large grain storehouses. Three is regulating the variety of import-export. This sort of measure is based on basically satisfying domestic grain needs through self-supply when there is only a small shortage, with more usually purchased in bumper years and less in shortage years. China has adopted this strategy for many years in its grain importing and exporting.

Given China's grain supply and demand situation and the nature of international grain market trading, I believe that in the near term, that is in the coming three years, China's volume of wheat imports will remain at about 10 million tons, corn and rice exports will surpass 5 million tons, the amount imported will about equal the amount exported, and China's net annual grain imports will reach 5 million tons. In the middle term, that is by 2000, when people's living standards will attain the well-off level, China's annual wheat imports will get up to about 10 million tons. In the long term, or by the year 2020 when China will enter the new stage of transition from well-off to prosperous, the annual grain imports will be as much as 20 million tons; by then, corn imports will have ceased. Given this sort of import scale and considering the increasingly expanding trend of future grain imports, I suggest that China should basically adopt the first import strategy, i.e., stable, long-term, appropriate volume of imports in the future. The foundation for adopting this import strategy is:

1. By 2020, China will be in a situation of the grain supply falling short of demand. The need to import grain is not to compensate for the gap between bumper and shortage years, but is based on the fact that the prerequisites of production cannot satisfy consumption.
2. The world political and economic situation indicates that the world will be in a peaceful environment for the next 20 to 30 years, with no sign of a world war erupting.
3. The world's grain supply is sufficient. Not only will the major exporting countries not alter the current situation of grain reliance on the international market, but also the competition for foreign markets will become increasingly intense. Overall, the future grain market will continue to be a buyers' market.
4. In choosing grain importing countries, we should operate on the principle of pluralizing market elements, that is, maintaining trade relationships with multiple

countries that we import from, and not rely excessively on importing from one particular country in order to avoid being controlled by it.

5. Along with expansion of the scale of grain imports, there must be an increase in foreign exchange expenditures. After the volume of grain imports increases, it can reduce the pressure from the demand side, so we can arrange for more cultivated land to be planted with economic plants and vigorously develop agriculture with earnings from foreign exchange, thereby compensating for what is spent grain imports. Of course, after we have basically adopted the first grain importing strategy, we should also give consideration to the second and the third strategies.

China's grain exports will show a trend to gradual reduction. In the near and medium term, restricted by Chinese economic development level and the people's living standard, China's corn exports will still go on for a while; but with an increase in China's per capita meat consumption and the development of the feed industry, China will terminate corn exports. Because China is the world biggest rice producer, rice is our superior plant. In addition, the general situation is that the international selling price for rice is 50 percent higher than the price of wheat. With the development of agricultural science and technology, China's rice quality will continue to improve. In the future, only rice exports from China are certain to increase, however, due to the pressure of domestic needs, the annual amount exported will not exceed 2 million tons either. Therefore, China's future grain exporting strategy should be to take economic efficiency as the dominant factor, that is, to change varieties and replace rice exports with exports of the higher priced wheat.

Several issues in China's medium and long term grain trade and essential basic policies

1. Grain is a strategic material, so we must rely on domestic supply.

We must rely on domestic supplies to resolve China's grain problem. It is absolutely impossible to rely on imports to handle the problem of feeding a population of 1.1 billion. Therefore, we must put the development of domestic agricultural production in the number one position, increasing our investment in agriculture, bringing scientific and technological potential into play, improving per unit production output, replacing low production farmland, comprehensively using land resources as well as implementing further economic system reform to arouse farmers' enthusiasm for production, doing whatever we can to increase grain production. There is no other choice besides this. Because population will continue to grow rapidly, it will be very difficult to increase the per capita amount of grain. Even if we could increase our grain production by 10 million tons by the end of the century, which would bring it to a production volume as high as 50 million tons, the population by that time will probably break through to the 1.28 billion mark, so the per capita grain occupation would still be less than 400 kg.

To resolve China's grain problems, it is urgent that in addition to increasing production, we restrict population

growth; this has already become our national fundamental policy. Meanwhile, we should also consider our basic domestic situation of a large population with a scarcity of farmland and shortages of agricultural resources. We must adopt a suitable grain consumption policy. We cannot travel the high grain consumption road, but must establish a scientific, thrifty style of food structure with Chinese characteristics. This will enable us not only to improve people's nutrition and health quality, but also to conserve grain and reduce our reliance on imported grain.

2. Exploit international markets, implement perfected grain resource allocation.

We must basically satisfy domestic grain demands by relying on domestic agricultural resources, but we also need to import appropriate amounts of grain from the world market. In order to achieve optimum allocations of foreign and domestic grain resources, we believe we must accomplish the following three items:

First, grain imports must comply with economic laws. Facing an increasingly open economy, it is necessary that each coastal province and city be authorized to import grain. But there must be an insistence on the principle that they collect foreign currency themselves and are responsible for their own profits and losses. This will maximize localities' enthusiasm for doing business more in accordance with economic laws, as well as permitting each coastal province and city in the macroscopic sense to wholly regulate their distribution to industry and agriculture, grain crops and economic crops, by adhering to the characteristics of their local resources in their acceleration of economic construction measures.

Second, establish grain reserve warehouses to make the most efficient use of grain imports and avoid losses from excessive world grain market prices in some years. The State should build grain storage facilities of considerable size. Short term investments of this sort can allow use to show more initiative in our use of the world market, and result in long term efficiency to us. This type of grain storage not only is the key for the state's establishment of a new grain system, it is also an important means for the government to regulate grain markets and intervene in the market. At the end of 1993 and beginning of 1994, the state's successful stabilization of the market price of grain was the direct result of establishing the grain storage system.

Third, strengthen construction of the infrastructure to ease the shipping storage. Shipping is a long unresolved problem disturbing China's grain import and export trade. The problem manifests itself chiefly in two aspects: one is that China's exported corn and imported wheat cannot be loaded for timely shipping due to the limited handling capacity of ports; another aspect is a shortage of railway shipping, with railway cars in critically short supply. There can be no effective resolution of these transport and shipping restrictions, because repairing and building ports and railways requires a great deal of state investment as well as a long period of construction. This has also been one of the difficult issues in China's grain import and export trade in recent years. Therefore, there is an urgent

need to strengthen construction of fundamental port and railway facilities; this is not only required by the current rapid domestic economic development, it is also an important material guarantee for achieving China's grain import and export strategy.

3. Issues concerned with the economic efficiency of importing grain

In the debate over China's long term grain imports, the biggest issues are nothing more than economic efficiency and comparative profits. If we calculate the average price level in the world wheat market for the period 1990-1993, we see that the wheat FOB price in the Chicago Exchange in the United States was \$122 per ton, \$142 per ton after adding shipping and insurance. Calculations on this base price, with US\$1 equal to 8.7 RMB, the per kg price of wheat was 1.108 yuan. This is not too high a price under the circumstances of opening up domestic grain prices. In addition, the imported wheat's quality is usually higher than that of domestic products of the same standard, plus it is much better to ship imported wheat from ports in coastal cities than it is to ship domestically produced wheat from producing areas. So I think that if we do not count variables, and just talk about simple calculations, in the future for quite some time, it will be reasonable for coastal city residents to take imported grain as a dominant factor.

Looking at the present situation, the key factor affecting the economic efficiency of China importing grain is a fluctuating foreign exchange rate. Changes in the foreign exchange rate starting in 1993 resulted in a 50 percent rise in the price of domestic wheat in China, far more than the rise in the domestic wheat price. Also, it is unavoidable in future development trends that there will be further devaluation of the RMB against the dollar. The question is, how much? If the RMB is devalued against the dollar to a degree which exceeds the rise in the domestic wheat, there will be a decline in the economic efficiency of importing wheat, and a corresponding drop in the amount imported. At the same time, this will provide a great stimulus to production of domestic grains, especially corn, greatly promoting growth in corn exports. In 1993, China's reduction of wheat imports and increased corn exports was due in great part to an unstable foreign exchange rate and devaluation.

Another important factor which will influence the economic efficiency of China's grain imports in the future is the successful results of the Uruguay round of GATT negotiations, chiefly the large Western grain exporting countries signing an agreement to withdraw agricultural trade protectionism and reduce grain subsidies. This will inevitably provide a strong impetus to raising grain prices in the world market.

Affected by a fluctuating trend in the RMB's foreign exchange rate and the successful Uruguay round negotiations, the forecast for wheat imported by China in 1995 will rise at least 10 percent over 1994, causing the world market wheat price to be considerably higher than the domestic market price. This will very likely result in a dramatic decline in the amount of wheat imported.

Shaanxi, Sichuan Report Cotton Procurement

Shaanxi Cotton Procurement

95CE0013M Beijing NONGMIN RIBAO in Chinese
14 Oct 94 p 1

[Summary] As of 5 October, Shaanxi Province had procured 7,660 dan of cotton.

Sichuan Cotton Procurement

95CE0013N Chengdu SICHUAN JINGJI RIBAO in Chinese
11 Oct 94 p 1

[Summary] At present, Sichuan Province has procured more than 200,000 dan of cotton, a two-fold increase over the same period in 1993. Procurement funds are nearly 1 billion yuan.

Yunnan Rural Saving Deposits Increase

95CE0013O Chongqing XINAN JINGJI RIBAO
in Chinese 11 Oct 94 p 1

[Summary] At the end of August, rural saving deposits in agricultural banks and credit cooperatives in Yunnan Province totaled 12.88 billion yuan, an increase of 2.43 billion yuan over the end of 1993, and an increase of 3.35 billion yuan over the same period in 1993. Per capita savings were 391.56 yuan, an increase of 73.48 yuan over the end of 1993, and an increase of 98.8 yuan over the same period in 1993.

Jiangxi Estimates Grain, Cotton Output in 1994

95CE0013P Beijing NONGMIN RIBAO in Chinese
18 Oct 94 p 1

[Summary] Estimated gross output of grain in Jiangxi Province for 1994 is 16 billion kilograms, and gross output of cotton 4 million dan. The per capita net income of farmers could exceed 1110 yuan, an increase of 240 yuan over 1993.

Hog, Pork Prices Continue To Rise in Sep

95CE0013Q Chengdu SICHUAN JINGJI RIBAO
in Chinese 15 Oct 94 p 3

[Summary] In September the procurement price for hogs on average was 3.45 yuan per gram, an increase of 21.9 percent over August, and an increase of 100.6 percent over the same period in 1993. The state-set sales price of pork on average was 5.63 yuan per gram, an increase of 22.7 percent over August, and an increase of 104 percent over the same period in 1993. In September the market price of pork (fresh meat) in 10 major cities was 5.85 yuan per gram, an increase of 14.0 percent over August, and a 78.9 percent increase over the same period in 1993, and the average price for frozen pork was 9088 yuan per ton, an increase of 23.6 percent over August, and a 111.2 percent increase over the same period in 1993.

Major reasons for the price increases are: 1) Seasonal, there are fewer hogs being slaughtered. 2) The Moon Festival and National Day holidays have decreased supplies and increased prices. 3) Hog stocks in Sichuan, Shandong,

Jiangsu and other major-producing regions have dropped. 4) With increased hog procurement prices, the wholesale market price for meat has increased. The procurement price for hogs in Hunan is 3.40-3.50 yuan per jin, in Shandong the price is 4.60 yuan per jin, and in Zhejiang the price is 4.50 yuan per jin. In Chengdu the allocation price for frozen pork in wholesale markets is 8200 yuan per ton. In Shanghai the wholesale price for meat is about 9100 yuan per ton, and in other areas it is as high as 10,000 yuan per ton.

The average price for piglets is 5.06 yuan per gram, a 21.3 percent increase over August, and a 103.2 percent increase over the same period in 1993.

Rural Economic Development Meeting Viewed

94CE0775A Beijing JINGJIXUE DONGTAI in Chinese
No. 8, 19 Aug 94 pp 24-26

[FBIS Translated Text] The Chinese Academy of Social Sciences, the Chinese Town and Country Financial Newspaper Office and the Handan city Agricultural Bank held a meeting on rural economic development May 5-10, 1994. Summary of the main viewpoints from specialists at the meeting follows:

1. Reform of the rural financial system could become the breakthrough for reform of financial systems

This is the unique opinion of Economist Dr. Li Xiaoxi of the State Council Research Office. Its basis is: 1) The rebuilding of Chinese Agricultural Banking branch banks will be much easier than that of Industry and Commerce banks. The target of loans for Industry and Commerce banks are primarily national large and medium enterprises. When Industry and Commerce Banking branch banks change systems, it involves their credit relationship with large and medium national enterprises; in particular, the problem of large debts is very difficult to handle. Although agricultural banks also have this problem, the impact on debts of supply and marketing cooperatives and other medium and small businesses is much greater. Because of this, it is fairly easy to handle. 2) Regarding the delineation between administrative and operating goals, agricultural banking is fairly simple and clear. The relationship between the examination and approval process involving administrative items and departments involved in national macroscopic management becomes fairly simple. 3) The various types of funds that have emerged in rural banking in the past two years show that there is a rather great potential for rural financial development. At the same time, the infusion of new ideas in financial organizations outside the system generates a great force for reforms within the system, which thus requires a quickening in the pace of reforms to the systems of rural financial organizations. 4) The present operating conditions of agricultural banks and lending institutions has already reached a point where change must occur. The value of credit is decreasing, management lacks the necessary control, and administrative losses conceal serious operating losses. If this continues without change then agricultural banks and lending institutions could become "an organ that is seriously sagging and further withered".

5) During reforms to the systems of rural financial organizations, the establishment and operation of lending institutions and rural cooperative banks could possibly accelerate and spur the rebuilding of agricultural banks and conversion into industry and commerce banks. 6) The various problems emerging now in rural economies are interrelated with building rural financial organizations. Without reforms to rural financial organizations, it would be difficult to spur further development in rural economies. This point is of great interest to the entire party and all the people and could become the major impetus for spurring reforms of rural financial systems.

2. Infusion of new ideas into township and town enterprise systems

Concerning this issue, Deputy Director of the Chinese Academy of Social Sciences Rural Development Institute Zhang Xiaoshan stresses these points: (1) Township and town enterprises should implement the shareholding system or the stock cooperative system. This is the main substance for infusion of new ideas into the system. Qualified enterprises should form into limited responsibility companies or limited liability companies. As for stock cooperative enterprises, they currently already contain enterprises of varying types. Concerning this, we should not insist on uniformity and not be eager to standardize stock cooperative enterprises. We should view stock cooperative enterprises as development of township and town enterprises. Organizationally, it gives us even more room to choose pluralization. Generally speaking, the difference between China's stock cooperative enterprises and normal stock cooperative enterprises is rather great. Based on actual conditions, a large portion of stock cooperative enterprises are not capable of, and do not have what is necessary for, developing into real cooperative enterprises. Everyone should have clear understanding of this. (2) Implementation of the stock cooperative system by township and town enterprises is not merely for the purpose of ready funds (for short-term loans). Its underlying purpose is distinct enterprise property rights. For township and town enterprises to create the conditions for transitioning to a modern enterprise system, it involves the problem of public accumulation of the enterprise. In a stockholder-run enterprise, if the accumulation does not clearly go to the stockholders, they would then have no motive to spur appreciation of the assets of the enterprise. In enterprises where all are stockholders, if the property rights of public accumulation are unclear, business managers and workers are afraid to allow new workers to enjoy free of charge the wealth they accumulated in the past, and likewise would not strive to increase the assets of the enterprise. Because of this, in this type of enterprise, the ultimate property rights of public accumulation should belong to the stockholders. The ultimate property rights of a stock cooperative enterprise transformed from a rural collective enterprise, such as establishment of collective stocks, should belong to the members of the community, and they should decide whether this portion of the property rights should be meted out to individuals. (3) Township and town enterprises pursuing the shareholder system and the stock cooperative system are undoubtedly positive

undertakings; however, because of dissimilar conditions such as the level of technology, the scope of production, the types of operating activities, and the grades of products, we should permit township and town enterprises to have the option of differing systems. Under certain conditions, the complete contract system for township and town enterprises may after all also be accepted as a fairly good system option. In areas of central and western China where township and town enterprises are fundamentally weak, we should encourage the development of individual, privately-run and partnership enterprises, and promote the union of various forms of capital, technology and land and labor.

The key to bringing new ideas to the internal systems of township and town enterprises should be to make the wealth generated by the capital, technology, land and labor invested in the enterprise by managers and producers to have an even closer relation with their income. We should allow a specific person, not an unreal collective, to be responsible for maintaining and increasing the value of an enterprise's assets and allow them to enjoy the associated benefits from this. By doing it this way, only then can township and town enterprises really thrive.

3. Regional policy for developing the agricultural economy

During the past several years, Deputy Director of the Chinese Academy of Social Sciences Population Research Institute Cai Fang constantly researched this subject. He felt we had created faulty areas in policy arrangements and ideological knowledge for developing rural economies between regions. These faulty areas caused the original disparities in the unequal development of the economies in the eastern and western parts of the country to widen even more. Because of this, determining a policy for regional growth that conforms to regional economic conditions and is feasible is the key to us avoiding pitfalls and quickly spurring economic development. To this end he proposed a comparative superiority strategy for regional economic development.

Cai Fang felt China created its own superiority because it is a nation vast in area, with a large disparity in the level of development and varying in endowments of natural resources. All areas that want their economies to take off must integrate their respective latent key production elements into their own products. Under a fairly complete and open market system, production elements and products can flow between each region. But because the exchange of production elements will undergo numerous conditional restrictions, such as the flow of capital having a complete financial channel, the movement of the workforce being restricted by the costs involved in moving and the quality of the workforce, and the fact that land can not flow freely, generally speaking, the mobility of products is much stronger than the mobility of production elements. Under these conditions, based on a principle of comparative superiority, we should achieve the effect of exchanging elements through the exchange of products. For example, in areas where there is an abundant workforce, although directly trading a workforce for capital is not an easy thing

to do, it can provide a means for developing work intensive products and industry. They could then use this to trade their products which do not have production elements. Based on this line of thinking, areas in eastern, central and western China can rely on their own comparative superiority and obtain their respective incomes through an exchange of products. Although this development strategy of comparative superiority can not spur the development of high-grade, precision and advanced industries areas in central and western China, they can ultimately achieve their goal of obtaining capital, and based on this capital they can have a comparative superiority. With this they go from being backwards to modern, and are among the ranks of those that are flourishing fairly well. Currently a trend where workforce superiority has been lost and capital and technological superiority has increased has emerged in areas along China's southeast coast. Undoubtedly, this is an excellent opportunity for development of township and town enterprises in central and western China.

4. Devote major efforts to develop rural "people-run" industry and commerce enterprises

Economist Dr. Liu Yingqiu of the Chinese Academy of Social Sciences Economic Research Institute points out: Currently, we should devote major efforts to develop people-run industry and commerce enterprises in China's vast countryside. We should set up enterprises that are voluntarily formed by the people, in whatever form, regardless of size and funded by themselves. This is an effective way which conforms to the inherent requirements of the productive forces and is advantageous to rural economic development. 1) "Government ownership" and "government operation" seriously destroyed the production initiative of the broad masses. Implementation of the household system of linking remuneration to output thoroughly concluded the history of agricultural production with the crop growing industry as the main body which was completely managed by the collective (the embodiment of the nation). After a phase of practice, the vast peasants once again began to march in unison toward rural industry using the people-run way for doing business. Practice proved that in those places with people-run industry and commerce, the growth in business was rather great and quick. The productive forces there also grew rather quickly. 2) "Government operated" industry and commerce is a form of operation and mode of production that is only effective under specific historical conditions and within specific social scopes. Under present conditions in China, it would be completely impractical to allow it to once again be the dominant system. Among China's city industry and commerce enterprises, there were parts of the country where nearly two-thirds were normally operating under capacity, to the point of being in a condition where production had fully or partially stopped. Moreover, at the same time the household system of linking remuneration to output freed rural productive forces, it was also subjected to great pressure from a surplus workforce numbering in the tens of millions. Under these conditions, developing "people-run" industry and commerce will vigorously arouse initiative in many ways and at many levels,

thereby making it possible to vigorously spur the development of China's rural economy. 3) Concerning collective ownership industry and commerce, all production is run quite well and it should be actively supported as well. Concerning the few enterprises that are run poorly and are in the red for a long period of time, they must be converted to people-run (enterprises) by such means as renting and auctioning them. At the same time, we should develop people-run industry and commerce by the vast amount of peasants choosing for themselves and independently uniting to do individual or partnership operations. In only this way will we be able to make the differing stages of China's vast rural productive forces achieve fairly fast growth and for capabilities to be fully unleashed. Only then can the various economic returns be effectively coordinated and each of the various economic components take their proper place under equal competition.

5. The basic way out for agricultural development in China lies in bringing about scaled operations

Assistant Researcher Ma Xiaohu of the National Planning Commission Economic Research Institute believes, as seen from practical experiences of economic development in flourishing nations and flourishing areas within the country, only when the workforce in the agricultural field is able to possess enough land can the conditions exist for them to raise the rate of work production and agricultural goods, thereby increasing their income by a large extent. But the real problem we face is, in the current stage the workforce held up in China's agriculture is increasing, causing agriculture to not only be unable to bring about scaled operations, but also causing the scope of land to become smaller. But within the past 10 years or so, at the same time the size of the workforce supply increased by a large extent, the phenomenon of an ever decreasing amount of work expended emerged in agricultural production. Presently, the major decrease in the actual amount of work expended on production of agricultural products creates a sharp contrast with the rapid increase in the size of the workforce supply. It is very obvious we would want to eliminate this contradiction, prevent the continual decrease in the scope of land operations, and ultimately bring about scaled operation in China's agriculture. The most basic way would be to shift the large surplus agricultural workforce to non-agricultural industries. But in recent years, the development of rural non-agricultural industries has just not been favorable for shifting agriculture's surplus workforce. The real reason for this is that the non-agricultural industries took the way of using capital in place of labor, making it obviously inferior in regards to its ability to attract a workforce. The effects of this vicious circle caused the rate of agricultural work production to increase slowly, so much so that it has decreased. An increase in agricultural production did not produce an increase in income. As can be seen from this, the most important thing in realizing land scaled operation is how to regulate the way rural non-agriculture industries develop, and to constantly increase its ability to attract a workforce.

6. Setting a policy for regulating and controlling the buying and selling of scientific goods

Deputy Director of the Chinese Agricultural and Scientific Academy Economic Institute Chen Fan points out, China's food problem that has evolved thus far is actually in essence a problem in the differing interests and cooperation among the three major groups—food producers, commodity grain consumers and food managers. Under the premise that the government should represent the interests of the three, the actions of the government to regulate and control the food problem should be "oriented" to: Establishing a food risk fund and setting a lowest price guarantee for food, and maintaining the dynamics of food supply and demand that is basically level through price guarantees for purchases and regulation of handling. Generally speaking, China's food supply and demand should essentially use market "mechanisms" for automatic regulation. The government only should, moreover only can, carry out appropriate regulation and control on the food market.

Chen Fan also believes the policy of "a set quantity and floating prices" is worth discussing, the reason being: 1) its real intention is monopolistic food purchasing, and it does not conform to the inherent laws of the operation of a socialist market economy system. 2) It is difficult to actually operate. The target of the policy proposed by Chen Fan is whether it is possible to determine "scalar quantity and set prices". Under the premise of floating food prices, specialists from within the central government in charge of the administrative function "food reserves department" would each year ensure that a certain amount of food was obtained through market purchases. This "certain amount" should be 100 billion jin plus a special reserve for yearly waste. The latter includes yearly "handling" waste and natural waste. Meanwhile, at the beginning of each year information is disseminated to peasants by setting equitable lowest price guarantees for food. By doing it this way, a change in the function of government, especially the central government, is realized.

Government To Adopt New Contracted System for Grassland

OW2110120394 Beijing XINHUA in English
0835 GMT 21 Oct 94

[FBIS Transcribed Text] Hohhot, October 21 (XINHUA)—China plans to adopt a household based contracted system for its 400 million hectares of livestock farms, according to a ministerial meeting held recently in Inner Mongolia.

The move aims to achieve higher economic gains of the large stretches of grassland, and at the same time, to improve the ecological environment.

According to the meeting which was sponsored by the ministry of agriculture, a contracted responsibility system for grassland production with compensation is expected to be implemented in the whole country in the coming three or four years.

The system was first carried out in the Al Horqin banner of the north China's Inner Mongolia Autonomous Region, which has now been taken as pace-setter for the whole country.

Located in the east part of Inner Mongolia, the banner has a total of 1.04 million hectares of grassland resources that can be tapped.

In 1987, the local government formulated a number of regulations and rules on use of livestock farms with compensation in a bid to fight against the farm's deterioration caused by overuse or overexploration of the grass resources.

In the past seven years, the banner has collected nearly 3.3 million yuan by contracting most of its livestock farms. Some 85 percent of the money has been used in reconstruction of the grassland.

Over 290,000 hectares of livestock farms have been sealed and more than 5,600 household contracted farms have been built, with an annual grass output totaling 1.5 billion kg.

The average per capita income of herdsmen reached 995 yuan, a hefty increase of 466 yuan from that before the system was carried out.

So far, about 270,000 households in 59 counties or banners in the region have benefited from the system and they have gained 51.2 million yuan through offering the right to use farms.

According to the agricultural officials, the contracted system has been implemented for about 72 million hectares of grassland in 25 provinces and regions across the country.

Farm Trade Policy Evolution, Cost

94CE0718A Beijing GUOJI MAOYI [INTERTRADE]
in Chinese No 8, 15 Aug 94, pp 21-24

[Article by Li Zhiqiang (2621 1807 1730) of the Macroeconomic Research Institute of the Chinese Agricultural Science Academy: "Analyses of Changes in Chinese Agriculture Economic and Trade Policies and Their Cost-Benefits"]

[FBIS Translated Text] I. Major Changes

1. Tariff Policy

(1) From the founding of New China to reform and opening up, tariffs on imported commodities were rather high and export commodities were exempt from taxation or export taxes were levied on only a few products.

Because China is a developing country with a vast population and supply and demand are great, when the country

was first founded, the principle of self-reliance was established. To safeguard the development of domestic industrial and agricultural production, reduce the import of agricultural products and byproducts, and use foreign exchange sparingly, a rather high tariff rate was adopted for imported agricultural products and byproducts. At the same time, to ensure the necessary foreign exchange for the import of industrial commodities, a tax exempt or a low tax policy was implemented for agricultural product and byproduct exports to encourage agricultural product and byproduct exports to ensure a national balance of payments. Before 1982, except for the levying of a tariff on four types of export products—peanuts, peanut oil, peppermint oil, and peppermint camphor—other agricultural product and byproduct exports were as a rule tax exempt. The foreign exchange earned from agricultural product and byproduct exports greatly supported the import demands of state industry (see Table 1). It can be seen in Table 1 that before the 1980s, China's exports of agricultural products and byproducts and the products processed from them made up more than 60 percent of total exports, and among imported commodities, import of the mechanical equipment and industrial raw materials required for industrial production made up more than 70 percent of total imports. Agricultural product and byproduct imports strongly supported the import demands for the industrialization of the country.

(2) After reform and opening up, import tariffs were appropriately lowered and certain tariffs were levied on primary agricultural product and byproduct exports.

With the implementation of the policy of reform and opening up, China's industrial system was gradually improved and the situation of mainly depending on agricultural products and byproducts and products processed from them to earn export foreign exchange was somewhat ameliorated. Tariffs on imported commodities during this period underwent major adjustment. Beginning from 1991, tariffs on 256 imported commodities were lowered; and in 1992 the import commodity adjustment tax was eliminated, tariffs on imported commodities were twice lowered, and varieties reached 3,596, lowering overall tariffs by 7.3 percent. In 1993 once again, 2,898 taxes on imports were voluntarily reduced. The tariff reduction reached 8.8 percent, thereby lowering China's overall level of import tariffs to 36.4 percent. Import tariffs on major agricultural product and byproduct imports were all reduced by five percentage points or more (see Table 2). At the same time, as regards exports, because the people's standard of living improved, domestic demand became vigorous. At the same time, to limit the amount of agricultural product and byproduct exports, the processing of agricultural products and byproducts was encouraged to add value. So, beginning in 1982, a definite proportional export tariff was levied on twenty-seven agricultural export products, including rice, soybeans, sugar, some aquatic products, silkworm cocoons, and raw silk, according to their domestic supply. Tax rates were from 10 percent to 100 percent. The export tax rate on major staple agricultural products and byproducts, rice, soybeans, sugar, and freshwater fish, was 20 percent, but the export tax rate on

such products as silkworm cocoons and raw silk that could create a high added value, was 100 percent.

2. Licensing and Distribution Control Policy

(1) Licensing Control

To ensure orderly and healthy development of export trade, that is to ensure supply to the domestic market and satisfy the need to earn export foreign exchange, beginning in 1980, China restored the licensing control system for export commodities and, looking to their different degrees of importance, export products were divided into first, second, and third class. In 1988 export licensing controls were implemented on 159 commodities, including about seventy important agricultural products and byproducts. In the following few years, the scope of export products for which licensing controls were implemented was further expanded. By 1991 it was increased to 234 and important agricultural products and byproducts reached about 110. But with the continuous intensification of reform and opening up, China's external trade concentrated more and more on the use of economic levers and correspondingly reduced the interference of state administrative planning. According to the 1993 Provisional Measures to Control Export Commodities, the scope of state controlled export commodities was greatly reduced. There are presently 138 export commodities for which distribution license controls are implemented, a 52 percent reduction from before. At the same time, the former classified business practices have been eliminated. With the exception of sixteen especially important export commodities for which the state still organizes centralized operations, the rest of the export commodities have been opened up to business by foreign trade companies.

At the same time that export licensing controls were implemented, import licensing controls also were implemented on some imported commodities, and based on their different uses, they were divided into two categories, one category for means of production and raw material commodities and another category for commodities for other uses. With the increase in enterprises with trade business authority, the state expanded the scope of commodities under imported commodity licensing control for a while in order to strengthen enterprise controls and ensure orderly import trade. From 28 in 1984 they were expanded to 53 in 1988. Major agricultural products were increased from only three originally—lumber, rubber, and herbal medicine—to eight, including natural rubber, lumber, and wool. In 1989 two new staple agricultural products—grain and cotton—also were added. But with increased reform of the economic and trade system and increased macroeconomic control capabilities, the scope of commodities under import licensing control was gradually reduced.

(2) Distribution Control

China's distribution control system is mainly implemented on the distribution of export commodities. In accordance with the demands of the international trade situation, different distribution control patterns are adopted for different agricultural products and byproducts. The first

category is planned distribution control. The domestic demand for this category of commodities is great, but they also are traditional export products and have a certain predominance on the international market. To do a good job of handling the relationship between domestic and foreign trade, that is to guarantee the domestic needs for the people's livelihood, and to attain the goal for earning export foreign exchange, a planned distribution policy with the state controlling operations has been adopted. The main agricultural products and byproducts include grain, cotton, tea, and pongee. The second category is voluntary distribution control export products. This category of products are mainly directed toward trade with the Hong Kong-Macao region (other countries also demand that China put voluntary limits on export volume). In order to ensure this region's economic prosperity, beginning in 1986, the state implemented distribution licensing control on 235 commodities exported to the Hong Kong-Macao region. By 1988 the the scope of export commodity licensing control toward that region was reduced. With the exception of commodities involved in the planning list and fresh, live, and frozen commodities, other commodities were reduced from the original 158 to 47. In 1993 distribution was further reduced to 23 mainly fresh, live, and frozen commodities; fruits; vegetables; and some Chinese herbal medicine materials. The third category is passive distribution export control commodities. This portion of commodities is mainly textiles. The only agricultural products are dried cassava and dried sweet potatoes.

3. Exchange Rate Policy

Since 1980 China has changed its former situation of highly estimating the renminbi exchange rate and has continuously lowered the rate. This has had rather good results in promoting export production in the country. Beginning in 1981, they first changed the single exchange rate to a dual exchange rate, that is they implemented an internal trade accounting price for foreign trade import and export commodities. The exchange of US dollars for renminbi (hereinafter exchange rate) was 2.8. Nontrade was still converted at the former posted exchange rate of 1.5. At the same time, with the US dollar exchange rate floating up, the renminbi posted exchange rate also was gradually lowered, from 1.49 in 1980 to 2.33 in 1984. Beginning in 1985, the dual exchange rate policy was changed and both trade and nontrade were accounted according to a unified posted exchange rate. Moreover, from 1985 to 1990, the renminbi exchange rate was lowered four times: In the last half of 1985, the renminbi exchange rate was lowered from 2.8 to 3.2; 5 July 1986, it was lowered from 3.2 to 3.7; 6 December 1989 the renminbi exchange rate was lowered 26.9 percent to 4.7; and 17 November 1990 it was again lowered 10.6 percent to 5.2. After (9 April) 1991, adjustment of the exchange rate was slowed within a certain range and by 1992 the exchange rate was adjusted to 5.52. Comparing the 1992 posted exchange rate with the 1981 dual exchange rate, the exchange rate had been lowered by 96.4 percent, an annual average of 6.3 percent. This was extremely useful in lowering the trading prices of agricultural products,

increasing the level of foreign exchange earned, and encouraging the export of agricultural products and byproducts.

4. Pricing Policy

To ensure the stability of the domestic market, Chinese external trade has all along adopted a separate domestic and foreign pricing policy. The purchasing price for export commodities and the domestic selling price of import commodities in principle were both determined by state fixed price or domestic market price, but the foreign sales of export commodities and the foreign purchase of import commodities were both transacted in accordance with the international market price. This separated the domestic market and the international market and led to a very great disparity between the domestic market price and the international market price. Since reform and opening up, the basic price separation policy situation has not changed greatly. But with constantly intensified reform of the domestic pricing and the foreign trade system, the merging of the domestic market price and the international market is becoming more and more obvious. As far as the domestic purchasing price is concerned, the scope of state fixed price commodities is constantly being reduced and the scope of market adjusted price commodities is constantly increasing. In 1978 state fixed price and state directed price agricultural product and byproduct purchases made up 94.4 percent of total purchases and market adjustments made up 5.6 percent. By 1990 state prices had decreased to 48.4 percent and market prices had risen to make up 51.6 percent of its total. By 1993, with the exception of as few as eight varieties, including cotton, tobacco leaves, and silkworm cocoons, all other purchases were in accordance with the market price, making the domestic market price and the international market price closer and closer. For example, the May 1994 Zhengzhou Futures Market price for wheat was 1110 yuan per ton. In the same period, the United States Chicago Futures Market price was US\$125.66 per ton, the renminbi equivalent of 1,105 yuan per ton (at an 8.8 exchange rate). The domestic and the foreign market prices had essentially merged. As regards the domestic selling price of imported commodities, the market price portion increased and the state fixed price proportion constantly diminished. In 1992, 95 percent of domestic sales of imported commodities were at market price and only 5 percent were at state fixed price, major agricultural products such as grain and cotton. Moreover, with deregulation of domestic grain sale prices, among staple imported agricultural products with the greatest domestic and foreign price disparity there was mainly only cotton. The disparity in the domestic and foreign sales prices for other imported agricultural products was getting ever smaller.

In addition to the few policies described above, another policy with a rather great affect on agricultural product trade was the import and export trade subsidy policy. Before 1991 China had a certain amount of financial subsidy for exported agricultural products. In 1987 the export subsidy for primary products was about 2 billion yuan, making up 4 percent of that year's total primary products. After the foreign trade enterprise contract

system was implemented in 1988, subsidies were frozen at the 1987 base and by 1991 financial subsidies were completely eliminated for export commodities. The varieties and amounts of import commodity subsidies also got smaller and smaller, and by 1992, among import commodities, those with state subsidies only made up 5 percent of the total, mainly such commodities as grain and cotton. So, as of now, the affect of the subsidy policy on China's agricultural product export trade is getting smaller and smaller. From here on the decisive factors will be mainly such economic policies as tariffs and exchange rates.

II. Cost-Benefit Analysis

1. Cost-benefit analysis of exchange rate changes

As far as agricultural product trade is concerned, the affect of exchange rate changes on exports is rather great and the affect on imports is comparatively much smaller. Because China's agricultural product imports are mainly to make up for domestic deficiencies and structural imbalances, they are commodities that must be imported. Moreover, domestic consumers mainly consume agricultural products supplied by the domestic market and only a very few citizens directly consume imported agricultural products. So, although it is said that after exchange rates went down, the prices of imported agricultural products rose, it did not produce a very great affect on agricultural product imports and the main decisive influence that it produced was a scarcity in the supply of domestic agricultural products. But changes in the exchange rate could produce a rather great affect on exported agricultural products, and its main manifestations are: First, increased cost in the foreign exchange earned by export commodities. Since China has had reform and opening up, the renminbi exchange rate has gone straight down. The average annual 1978-1989 renminbi exchange rate decline was 8.1 percent. In the same period, the cost of export exchange earned by export commodities rose 5.9 percent annually. Secondly, the decline in the prices of export commodities. Taking grain for example, from 1985 through 1992, the domestic grain purchasing price increased from 416.1 yuan per ton to 706 yuan per ton, an annual increase of 7.9 percent, but in the same period, the renminbi exchange rate declined from 2.94 renminbi to the US dollar to 5.52 yuan by 1992, an average decline of 9.4 percent. Thus, the free on board (f.o.b.) price of export grain was almost unchanged from US\$146.15 per ton in 1985 to US\$146.32 per ton in 1992 (see Table 3). So, although the domestic purchasing price was said to increase, because the exchange rate was lowered, the affects of the two on export prices were generally offset. So, relatively speaking, greatly lowering the prices of export commodities has helped to promote the export of agricultural products and byproducts. In 1985 exports of agricultural products and byproducts amounted to US\$4.532 billion. By 1992 export amounts had increased to US\$11.58 billion, an average increase of 14.3 percent.

2. Cost-benefit analysis of tariff changes

Changes in China's major staple agricultural product import amounts have not been directly affected by tariff changes in recent years. The decisive influence has been changes in domestic supply. Moreover, import tariffs are

not levied on major staple agricultural products or the customs rates are rather low. For example, no import tariff is levied on grain, a low 3 percent tariff is levied on cotton, a 20 percent tariff is levied on edible vegetable oil, and a 30 percent tariff is levied on sugar. In recent years, among these few imported products, with the exception of the import tariff on edible vegetable oil that went down somewhat in 1994, the others all remained unchanged. But there was an extremely great change in the volume of imports (see Table 4). In Table 4 we can see that as regards such major agricultural products as grain and cotton, since the early 1980s, their production and supply have gradually increased, correspondingly alleviating the domestic supply contradiction. By 1984 and 1985 they had reached new levels of supply. During the same period, import amounts also gradually declined. Grain imports declined from 13.53 million tons in 1983 to 6 million tons in 1985 and cotton declined from 230,000 tons to 200 tons. Between 1985 and 1990, production was in a reduced output fluctuating period, and the corresponding demand was even more vigorous than before. So, the volume of imports gradually increased. Grain imports in 1989 increased to 16.58 million tons and cotton increased to 520,000 tons. After the 1990s, production of such commodities as grain and cotton strode into a new growth period and import amounts correspondingly gradually declined. Obviously, changes in the amounts of imports of these staple agricultural products were not directly affected by changes in tariff policies.

But if a rather high tariff is levied on export products, it still has a certain affect on the agricultural product export trade. For example, beginning in 1989, the state set a 100 percent export tariff on such products as silkworm cocoons and raw silk, greatly reducing the volume of silkworm cocoon and raw silk exports, but comparative trade greatly increased. Before 1989, China's raw silk exports always maintained a rather high level. In 1985 the export volume was 10,893 tons, the export value was US\$250.85 million, and the f.o.b. export price US\$23,028.60 per ton. In 1988 the export volume was 9,404 tons, the export value was US\$303.68 million, and the unit export price was US\$32,292.60 per ton. In this period of time, because the domestic purchasing price rose rather greatly, the 1988 purchasing price rose to 150 percent of that of 1985. But at the same time the lowering of the exchange rate was rather small, the 1988 exchange rate was 26.5 percent lower than that of 1985, causing the unit export price to rise rather rapidly. After 1989, because of the 100 percent export levy on silk, the export volume gradually declined, but the unit export price rose rather greatly and the export value increased correspondingly. In 1989 the silk export volume was 11,361 tons, the unit export price was US\$46,381.48 per ton, and the export value was US\$526.94 million. The reason that the 1991 unit export price was lower than in 1989 was that during that period the rise in the domestic purchasing price was small. The 1991 purchasing price declined by 3.6 percent from 1989, but at the same time there was a rather great lowering of the exchange rate. In 1991 it was 41 percent lower than in 1989, causing the unit export price to decline somewhat. But despite the fact that the 1991 export price was 8.4 percent lower than in 1989,

its export volume, on the contrary, declined by 30.3 percent from 1989. This was precisely a reflection of the effect of tariff limitations.

III. Analysis of the Favorability of a Few Major Agricultural Products

The previous analysis indicated that China's tariff changes did not have a very great affect on the import trade of major agricultural products. Now we are mainly discussing the affect on major staple agricultural product exports after the merger of the exchange rates. In 1994 after the renminbi exchange rate was merged, it caused the renminbi exchange rate to decline greatly from the 1993 base. In April of this year, it was 8.7 yuan to US\$1. With this exchange rate, the domestic futures price on such major agricultural products and byproducts as rice and cotton was far lower than the international market price, but the market prices of such products as wheat, corn, and soybeans were all higher than the international market (see

Table 5). In Table 5 we can see that in the domestic and the foreign futures market prices of such major agricultural products as wheat, corn, and soybeans, except for May, in all other periods the domestic price was higher than the foreign price. So, if in the last few months of this year, the renminbi exchange rate is still maintained at 8.7 yuan to the US dollar, it will not help the export of these few agricultural products. But rice and cotton are totally different. From the perspective of the current situation, the domestic May rice futures price was US\$198.851 per ton, and the 23 April Bangkok rice market price was US\$425 per ton, a 53.2 percent disparity between the domestic and the foreign price. The October domestic futures price is US\$257.241 per ton, still much lower than the US\$425 per ton level. So, for a period of time hereafter, if the exchange rate only does not raise greatly, the price situation should be extremely favorable to rice exports. The cotton situation also is similar. If only the disparity of the domestic and foreign price is even greater, with the disparity of the two almost reaching 100 percent, it will be even more favorable to cotton exports.

Table 1—1953-1982 Import and Export Commodity Values and Their Structure (Unit: \$100 million)

Year	Exports					Imports		
	Total	Agricultural and Sideline Products, and Processed Products		Agricultural Products and Byproducts Within That		Total	Mechanical Equipment and Industrial Raw Materials	
		Value	Share	Value	Share		Value	Share
1953	10.22	8.34	81.6	5.69	55.7	13.46	12.15	90.3
1955	14.12	10.52	74.5	6.51	46.1	17.33	15.70	90.6
1957	15.97	11.43	71.6	6.40	40.1	15.06	13.11	87.1
1959	22.61	17.25	76.3	8.50	37.6	21.20	19.30	91.0
1961	14.91	9.93	66.6	3.09	20.7	14.45	8.28	57.3
1963	16.49	11.06	67.1	3.99	24.2	12.66	5.98	47.2
1965	22.28	15.39	69.1	7.37	33.1	20.17	13.42	66.5
1967	21.03	16.14	75.6	8.39	39.3	20.20	13.35	66.1
1969	22.04	16.86	76.5	8.42	37.4	18.25	12.60	69.0
1971	26.36	18.75	71.1	9.55	36.2	22.05	16.47	74.7
1973	58.19	43.80	75.3	20.80	35.8	51.57	36.147	70.1
1975	72.64	44.11	60.9	21.50	29.6	74.87	58.23	77.8
1977	75.90	46.70	61.5	20.96	27.6	72.14	50.00	69.3
1978	97.45	61.05	62.6	26.91	27.6	108.93	81.75	75.1
1979	136.58	76.43	56.0	31.57	23.1	156.75	118.24	75.4
1980	182.72	88.16	48.2	34.19	18.7	195.50	139.95	71.6
1981	208.93	91.43	43.8	36.81	17.6	194.82	127.74	65.6
1982	218.19	86.04	39.5	32.43	14.9	174.78	109.90	62.9

Table 2 Tariff Changes on Major Agricultural and Sideline Product Imports

Variety	Hogs	Other, Goats and Sheep	Fresh and Frozen Pork and Mutton	Fresh and Frozen Poultry	Fresh and Frozen Vegetables	Apples, Pears, etc.	Major Grains and Granular Starch	Vegetable Oil
Before Adjusting the Preferred Tariff Rate	40.0	40.0	50.0	50.0	50.0	80.0	40.0	15-28
After Adjusting the Preferred Tariff Rate	35.0	35.0	45.0	45.0	45.0	40.0	35.0	9.7-20

Table 3 Affect of 1985-1992 Exchange Rate Changes on Export Grain Prices Yuan (\$/Ton)

Year	Exchange Rate	Domestic Purchasing Price	Export F.O.B Price
1985	2.94	416.1	146.15
1986	3.45	465.9	139.25
1987	3.72	508.5	137.52
1988	3.72	563.7	165.61
1989	3.77	750.0	181.65
1990	4.78	716.6	174.81
1991	5.32	677.3	145.62
1992	5.52	706.0	146.32

Table 4 Affect on Imports of Major Staple Agricultural Product Production and Supply (Unit:10,000 Tons)

Year	Grain		Cotton		Vegetable Oil		Sugar	
	Import Volume	Production Volume	Import Volume	Production Volume	Import Volume	Production Volume	Import Volume	Production Volume
1983	13.53 million	387.28 million	230,000	4,637 million	35,000	10.55 million	1.83 million	40.32 million
1984	10.41 million	407.31 million	40,000	6,258 million	14,000	11.91 million	1.23 million	47.8 million
1985	6 million	379.11 million	200	4,147 million	35,000	15,784 million	1.91 million	60.47 million
1986	7.73 million	391.51 million	200	3.54 million	200,000	14,738 million	1.18 million	58.53 million
1987	16.28 million	402.98 million	6,000	4,245 million	510,000	15,278 million	1.83 million	55.5 million
1988	15.33 million	394.08 million	35,000	4,149 million	210,000	13,203 million	3.71 million	61.87 million
1989	16.58 million	407.55 million	520,000	3,788 million	1.06 million	12,935 million	1.58 million	58.04 million
1990	13.72 million	446.24 million	420,000	4,508 million	1.12 million	16,132 million	1.13 million	72.15 million
1991	13.45 million	435.29 million	310,000	5,675 million	610,000	16,383 million	1.01 million	84.19 million
1992	11.75 million	442.66 million	280,000	4,508 million	420,000	16,412 million	1.1 million	88.08 million

Note: Sugar production volume is sugar crop production volume and edible vegetable oil production volume is oil-bearing crop production volume.

Table 5 Comparison of the Domestic and Foreign Major Agricultural Product and Byproduct Futures Markets (Yuan/Ton, \$/Ton)

Variety	Date	Domestic Futures Price		International Futures Price
		Renminbi Price	US\$ at 8.7 Exchange Rate	
Wheat	May 1994	998	114.713	115.648
	July 1994	1,063	122.184	115.373
	September 1994	1,084	124.597	116.751
Corn	May 1994	918	105.517	101.960
	July 1994	964	110.805	103.142
	September 1994	955	109.770	100.878
Soybeans	May 1994	2,102	241.609	242.045
	July 1994	2,241	257.586	241.953
	September 1994	2,280	262.069	239.932
Cotton	1994 Anticipated Purchasing Price			May 94—1,786.123
		7,740	889.655	July 94—1,759.912
Rice	May 1994	1,730	198.851	23 April Bangkok Market Price
	October 1994	2,238	257.241	425

Analysis of Troubled Youths

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[Article by Leng Mou (0397 4188): "Is It All The Kids' Fault?—Looking At China's Troubled Youth"]

[FBIS Translated Excerpt] [passage omitted] It is a common feeling among Chinese adults that children become disobedient, but sometimes adult society has to give in to youth. Some young girls and boys rebel against family and societal pressures by running away from home; some high school students organize into gangs and some of them hang around recreation halls and video rooms. They despise society's hopes for them. Some of them run up high debts in spite of their youth, which is called "spending future money in advance." They compete with adults in consumption by boldly borrowing money; some rush into the "forbidden sexual zone," not only sampling the "forbidden fruit" but also actively attacking others and committing sex crimes.

An unsatisfactory test score, an argument with parents or classmates, the inability to bear a heavy study load, the pressures of entering higher school grades, the concerns of puberty, personal ambitions suffering setbacks, imperfect growing circumstances, etc., are all possible causes of problems in youth during their maturation period, and this includes running away from home.

In recent years, the phenomenon of high school runaways occurs frequently: Among more than 140 students in a certain grade of a railway affiliated high school in North-eastern China, over 40 of them had run away from home at some time. At the end of 1993, seven young girls and boys in Beijing No.54 High School took clothes and money, and collectively ran away without notifying their parents, because they were "unsatisfied with boring and unprogressive studies, and with a life that was short of great waves."

In one Beijing high school, two junior high students got into a fight at school and when the teacher wanted to see their parents, the students agreed to run away. Another four or five classmates who knew of the situation not only did not report this to teachers or parents, they got together for lunch to "cheer up" their classmates who wanted to run away. One girl classmate even went to the railway station to see them off. After they ran away and arrived in Guangzhou, the two students evaded border inspectors and dashed into Shenzhen. Their parents advertised on newspapers and TV, searching for them everywhere. They were not returned home until half a month later, after each of the two families had spent over 10,000 RMB on the affair.

Now, friction among classmates, criticism by teachers or a very small matter can bring out troubles which have accumulated in their minds for a long time, so some kids choose to avoid reality in such ways as "running away from home." [passage omitted]

Today's youths don't worry about food and clothes, so what does trouble them? An expert on the problems of high

school and elementary school students, Beijing's Su Ting [5658 1250] said there were five major aspects to this. Analyzing over 26,000 recorded telephone calls received over three years by the "Beijing high school and elementary school student hotline," she found that the factors which bothered high school and elementary school students are as follows, in order:

- 1) inability to make progress in studies, failure to pass tests and being sick of studying; overwhelming parental pressure causes nervousness in tests;
- 2) love affairs;
- 3) relationships with other people, in addition to conflicts among classmates, in many cases they worried about arguments with their parents;
- 4) entering a higher grade in school and employment—students find it hard to adapt when they are just entering junior or senior higher school, and they desperately need counseling and supervision concerning entering higher grades in school. They want part-time jobs to earn money; high school students have become very realistic and practical in seeking their life goals, and are strongly intent on making money;
- 5) the personal concerns of youth; some of them are bothered by a lack of confidence in life, some feel lonely, and some of them just feel anxiety for no particular reason.

Su Ting pointed out that a very large share of the "run-away" cases were due to family reasons:

The first is, when children are growing up, their self consciousness is growing too, but some parents fail to realize this. They still care for and worry about their kids on every issue, until their care makes the youngsters "impatient," and a sort of psychological opposition to their parents makes them want to run away from the over-expansive wing of their parents.

Second, parents are quite anxious in their expectations for their children's success, and this causes invisible pressures. Many parents "treat their kids very well while being cheap with themselves"; after working hard in the daytime, they accompany their kids in their studies, or prepare food for them at night or give them a tube of royal jelly juice. While fully understanding their parents' intent, the kids become more anxious and fearful: After taking tests, they at once feel they have failed to match their parents' expectations, so some kids simply don't go home.

Third is the generation gap. While many parents are upset about "appreciating these kids less and less," many of our youth also "give a snort of contempt" when talking of their parents. Some parents force their children to accept their ideas, so the kids get angry and run away.

At bottom, the problem of youth running away from home is caused by their psychological capacity being too small. Many sociologists urge giving young people "education in setbacks." Some experts in Beijing have warned parents that, if a young plant has only sun and rain but is never subjected to testing by wind and frost, in the end it cannot grow up to become a big tree; and that the phenomenon of

many families spoiling their children is causing a "psychological calcium shortage" in the young, with resultant dictatorial behavior. [passage omitted]

Professor Zhang Xianxiang [1728 0341 5046] of the China Youth Research Center says that moving from dependence to independence is an important indicator of personal maturity, and intelligent parents should accelerate this process, not delay it. However, a widespread and outstanding problem now exists in mainland family education, and that is over protection. A researcher at the Psychology Institute of the Chinese Academy of Social Sciences, Kuang Peizi [0562 1014 2737] says that surveys of parents' attitudes toward educating children show that, at present, their attitudes on educating and raising their children commonly reflect high expectations and over-spoiling.

A survey conducted by the Beijing Education Institute showed that over-spoiling results in a poor capacity to bear up under psychological burdens. When more than 1,700 young people were asked their "reactions to suffering setbacks," and specifically "can you keep on going when you suffer failure?", 31.2 percent of the students admitted "they are not strong in bearing setbacks"; for "have not experienced attacks of failure and training," 5.5 percent of the students flatly stated "I can't"; "When I encounter such situations, I don't know what to do." [passage omitted]

There was a cartoon published on 6 June of this year, in the "campus-high school news" section of the ZHONGGUO QINGNIAN BAO in Beijing. The cartoon reflected the fact that mainland young people now have many concerns, and the biggest of all not having a close friend. A recent mini-survey of over 2,500 high school students throughout the nation conducted recently by the ZHONGGUO QINGNIAN BAO disclosed that many high school students "have many worries but no one to discuss them with"; they very rarely discuss their problems even with their parents.

This mini-survey showed that although 73 percent of students choose to discuss their concerns with their friends, only 36 percent can really talk about everything with friends. 34 percent of the students believe that everyone should have his own secrets and privacy, and even with friends, one is not obliged to disclose everything; 6 percent of students think that even their close friends do not fully understand them; another 6 percent of students are afraid that their own concerns will add to their friends' worries; 4 percent of students are afraid of being embarrassed if friends learn of their concerns. [passage omitted]

The surprising thing is that 14 percent of high school students are very careful, even very wary, when dealing with friends. In this, their worldly-wise attitude toward friendship exceeds their ages. One high school student said, "It is entirely impossible that I can discuss everything with my friends. Everyone wears too many masks, and it is only when I am by myself that all masks can be removed." One student thought, "Sometimes friends are even more frightening than enemies." Another high school student said in a letter to the newspaper: "I am unable to talk about

everything with my several so-called close friends; I always hold back on some important topics. I do this because I am afraid they cannot keep a secret, or that someday when our relationship breaks up, they will betray me." This situation also occurs quite often among another special friends group—penpals. The survey showed that among 34 percent of high school students who have acquired penpals, only 10 percent of them thought that penpals are more sincere as friends.

Of the responding students, 28 percent temporarily have no close friends for such reasons as pressures of study, personality, etc. Liu Ximai [0491 0823 3780], a student at Chongqing's Long Meng Hao Professional High School said: "I want a friend, but I believe I do not go with my classmates just like oil doesn't go with water." Lu Baojiao [0712 0202] senior high student in Xing Town, Ji County, Henan, said: "I have almost no close friends in my class, because everyone is busy preparing for intensive exams. When we pass, all we do is say hello, that's all. Some students have been in the same class for nearly a year, but still don't know each others' names, so it is difficult to become close friends." [passage omitted]

In recent years, some high school students (most of them boys) have organized various "underworld gangs," and as some experts point out, the underground character and internally condensed strength of these unusual groups stands exactly opposed to the positive teachings of schools and families. The appearance of "underworld gangs" among mainland high school students reflects an estrangement between some youth and the adult society. Beijing's experts on social problems acclaimed that this was a "red warning light" sent by youth to families, schools and society.

Mainland high school student gangs usually consist of seven or eight or more persons, and the names of the gangs are taken from video tapes, for example, the Plum Blossom gang, the Thunderbolt gang, the Green Snake gang, Chivalrous gang, Taiqi Eight Divinatory Symbols gang, Earth Dragon gang, etc. They often have gang rules and a secret language as well as a uniform mix of gang chiefs, deputy chiefs, etc. Among these, the gang rules usually are to share joys and disasters, obey orders, keep gang information secret, etc., which makes the gangs strongly exclusive and underground, so it is difficult for parents and schools to find out about them.

Their actions are more complex, and generally can be divided into five types: One is the "recreation and fun play" type which in concept embodies the Kungfu society organizations. In one high school, seven "brothers" stayed together, listing themselves by ages as eldest brother, second, and so on down to the youngest, and giving themselves individual nicknames such as "The Old Eagle," "The Scholar," etc. They snuck into their school's electrical education class to hold a ceremony of becoming sworn brothers, promising that "Seven persons become brothers, exploring society together, absolutely devoted to each other to create a dominating position."

The second is the "emotional connection" type, with the crazy fights in video tapes, and the strange gangs in books

and magazines all becoming the "sacred stuff" they worship. These gangs are organized by friends who are birds of feather.

Third is the "Kungfu rules" type. Through their group power they threaten, curse and beat up classmates who oppose them, or make trouble in order to show their "power and prestige" to people in society. A 16 year-old high school student named Luo organized a "caring and helping gang," which they called "helping out and seeking justice." Luo himself became the gang chieftain; in addition, six other gang leaders were elected. Five gang members cut their left arms with saw blades and inserted blue ink to form a tattoo of the character for "peace." As the gang chieftain, Luo took money to purchase a spring knife for everyone, and two people carried a kitchen knife.

Fourth is the "stealing" type. In order to satisfy group members' eating, drinking and entertaining, they steal everywhere. A county high school student named Zhou invited about 21 classmates called the "Scorpion Gang." They got together frequently, established discipline, set up a system of secret signals and formed a "specialized stealing gang," and a "fighting gang," with each of them carrying weapons. They committed 21 crimes within four days after establishing the gang.

Fifth is the "group stealing" type. A very few high school student groups plan and purposely carry out group thefts in society.

An investigation into high school gang activities uncovered at least four factors leading to formation of high school gangs. First are the physiological and psychological factors. Fourteen or fifteen year-old non-adults are in the transition phase from childhood to maturity, from dependence to independence, and this easily causes them to become removed from and rebellious towards parents and teachers, both psychologically and emotionally. This in turn strengthens their closeness to and reliance on unofficial groups within their age group, and gang organizations just meet this demand.

Second, family factors. The investigation showed that 32 percent of gang participation was due to inappropriate family education. This kind of family eagerly looks forward to the children becoming outstanding, however, their simple and crude ways of teaching create a lack of security and suitable freedom, which pushes the young people to seek compensation outside of their families. Of those who joined gangs, 28 percent did it because of the low cultural level of their parents, whose stress on money and enjoyment leaves no time for educating their kids. Another 16 percent joined because of their parents divorcing, a complex and cold family relationship, or a lack of love from a father or mother. There were 24 percent who were influenced to join by observing their parents' own close group relationships.

Third, school factors. In recent years, some schools have put their sole emphasis on raising the class promotion rate, while ignoring moral education. They quite readily punish the slower students or even force them out of school. This objectively causes them to give themselves up, and turned

to group strength in order to maintain their self respect. They then form the negative activities of rejecting pressure and claiming domination in school.

Fourth, the social factor. The uncontrolled spread of various murder, pornography and kongfu books, magazines, movies and TV series do not set a good example for those boy students who love fighting. [passage omitted]

Since China implemented family planning, sexual knowledge has been disseminated widely among adults, but the approach has been to avoid high school students. Young people learn some vague or even incorrect things about sex from companions, book stands, gossip newspapers and video tapes. With an atmosphere of further openness on the mainland, some unwholesome magazines and movies have spread widely and sexual attitudes have become gradually established in adult social sciences, and greatly strengthened youths' desire to learn about sex. Many of them have an open attitude toward sex.

Some young people are demanding "sexual equality" from adult society. In March of this year, Xu Ling [1776 5376], a female Professor of Gynecology and Obstetrics at Beijing Xiehe Hospital, completed a questionnaire survey that showed: 95 percent of girls who get pregnant before marriage wished they had learned about growing up, sex, pregnancy and contraception, etc. Some of them also yearned to obtain contraception devices through legal channels, and this extends far beyond China's puritan aura of the past.

Professor Xu Ling discovered in her survey of 917 girls that over half of them had a sexual experience before they were 20 years old, and 483 had been pregnant at least twice, with the highest seven times. Among these, 46 percent worked in service businesses, and 17 percent were students.

Concerned sectors in China discovered in a 1992-93 survey that 87.4 percent of young people approved of being "educated in sexual physiology" during puberty, 84.6 percent of them approved of "learning sexual ethics," 80.2 percent approved of "teaching sexual hygiene," while 71.1 percent approved of "teaching sexual psychology," and 40 percent approved of "teaching the knowledge of contraception."

This survey also showed that a significant number of young people have tolerant attitudes toward pre-marital sexual behavior. In answering "What would be your attitude if a girl student in your class became pregnant?", only a small proportion answered "ridicule and disgust"—this was the response of 11.2 percent and 10.2 percent of the boy and girl students respectively, while the proportion that said they would "recommend she have an abortion" was 36.1 percent and 49.9 percent among boy and girl students respectively.

While China is backward in sex education, young people hold open ideas about sex, and some engage in sexual activities earlier. A second level senior high school female student at one of Beijing's key high schools said that in one year among 100 girl students, she knew of four or five girls

who had gotten pregnant, and the number of girls who had sexual relationships was as high as between 20 to 30. [passage omitted]

Li Hui [2621 6540], the Deputy Director of the Beijing Elementary and Secondary School Counseling Center says that the sexual problems that exist today among high school students are chiefly the following:

First, a lack of sexual knowledge and a lack of self-protective ability. Among the sexual problems raised during counseling on the Beijing elementary and high school hotline, 38 percent concerned pre-marital sex, pregnancy and abortion, etc. Not knowing how to practice contraception and not knowing what to do after getting pregnant often leads to running away from home and suicide. Many high school students lack the most basic physiological knowledge. Some girl students said that they did not dare to sit on chairs which had been used by boy students, because of the fear of getting pregnant; some girl students asked, "Can I get pregnant by holding a boy's hand or kissing him?"

Second, negative family influences. Currently, many families have limited living space, and children can observe their parents making love; in addition, in some single-child families, the parents differ in their affections for the child and raise the child counter to its sexual status. This causes sexual errors, and has been a prominent factor in the recent rise of homosexuality among young people. [passage omitted]

Third, sexual attacks from adults in society make it difficult for the young people to cope. The outstanding problem is the frequent incidence of cohabitation. In the majority of cases, one cohabiting partner is a girl student at a key senior high school, most of whom are guaranteed by their schools of going on to college; the other partner is a man with a wife and children, ages ranging from 7 to 10. Some adult males seduce these naive girl students through their power, position and money. The counselors learned that 7 percent had lost their virginity when seduced by an adult, 14 percent had been harassed by adults, and 5 percent had love affairs with married adults. [passage omitted]

As people have sought countermeasures, trying to resolve such social problems as runaways, youth gangs and sexual excess, a new problem has unexpectedly sprung up, one that troubles sociologists greatly: young people's offense of indebtedness.

Development of a market economy creates a demand for consumption in society and provides more consumption channels. Some high school students who lack economic resources do their consumption with borrowed money, which leads to high indebtedness, and some have walked into the vicious circle of "borrow money-repay money-borrow money." A few have gone down the road of crime, some of them stealing and robbing, some killing their creditors, some swindling for money and property and some having to trade sex for debts.

In a recent sensational murder case in Fujian, the killers were two third level senior high school students who had just turned 18. These two students owed a sum of money to the manager of a grocery across from the school. One day, when the manager turned down these two students for credit purchases and subjected them to a scolding as well, they lost control of themselves and killed him.

At the beginning of last year, a Jiangsu high school student owed a few hundred yuan due to his indiscriminate buying of Kungfu and mystery novels, and could not find the means of repaying when pursued by the creditor. The student then imitated the model in one of the novels to compose a blackmail letter: "You must hand over 10,000 yuan by the deadline, or you will be killed without reason," and signed it "The Steel Blood Gang." He made seven copies and sent them to seven influential local bosses.

Last year two high school students in Sichuan hatched a plot to kidnap the niece of one of them and hide her in a wood cabinet as a hostage. They then sent an anonymous letter to the little girl's parents demanding 3,000 yuan in ransom, which they needed to repay debts. It turned out to be a botched kidnapping, as they forgot to loosen the ties on the girl and provide her with fresh air, which caused the little girl to die of suffocation.

High school students' going into debt to consume can also cause other social problems. A male high school student named Wang was an only child. His mother ran a small store, so he always spent money quite freely, often inviting friends to have snacks. And when he was in a good mood, he would invite several friends to a restaurant. If he did not have enough money to pay the bill, he would put it on credit, and soon owed a lot of money. He often went to his parents to request funds, giving them various reasons. However, he was never able to pay off what he owed, and his debts grew increasingly high. One day, after being scolded and slapped by his father, he angrily returned to school and invited friends to several luxurious restaurants to eat and drink, putting it all on credit. The next day, he ran away from home, and has never returned since then.

Beijing PAP 2nd Division Assists Public Security Apparatus

95P30007A Beijing RENMIN GONGAN BAO
in Chinese 6 Sep 94 p 2

[Summary] The People's Armed Police Beijing Second Division has coordinated with local public security components to maintain social order in the capital. On the basis of the "Public Security Ministry's Opinion on Continuing To Thoroughly Develop the Severe Crackdown on Crime and Energetically Rectify Social Order" and relevant laws, the division has enhanced the awareness of its officers and men and has organized its crack troops into sub-units to join in the first-line struggle. By the end of August, the PAP Beijing Second Division had mobilized its men on over 5,000 occasions, assisting public security in the apprehension of 517 criminals. It has seized 81 weapons of various types and over 2,500 obscene publications.

Transportation Security Official on Waterways Security

94CM0411A Beijing RENMIN GONGAN BAO
in Chinese 13 Sep 94 p 3

[Article by Chen Chunqing (7115 4783 7230), Chief of Public Security Bureau of Ministry of Communications: "Wage an In-depth Struggle To Fight Against Crimes and Keep Waterways Open and Safe"]

[FBIS Translated Text] Waterway transportation is one of the major arteries in China's national economic construction. Since the beginning of the 90's, the situation of public security in inland waterway navigation and at various ports is becoming more and more serious in each passing day. The tasks shouldered by the public security organs for waterway transportation has become more arduous than ever before.

Their first task is to guard against and strike at criminals who commit violent crimes and infringe upon passengers' properties, and protect the lives and properties of the Chinese and foreign passengers. Since the introduction of the reform and opening-up program, the flow of passengers and freight has increased on a large scale, and the number of criminal cases involving the theft and robbery of domestic and foreign passengers' properties and the use of violence against passengers on the ships has sharply risen. Adhering to the principle of pooling the efforts of the masses and the professionals and of simultaneously preventing and striking at the criminal cases, the public security organs along the waterways and at various ports have timely cracked almost all the crimes of a violent nature. The passengers now feel much safer than before.

Their second task is to guard against and strike at the criminals who steal cargoes and to ensure maximum safety in waterway transportation. The number of cases of freight larceny in waterway transportation during the past four years rose nearly 20 percent as compared with that during the preceding four years. Furthermore, the cases are now more serious in nature. The value of stolen goods has increased. In minor offenses, the value of stolen goods may

be worth tens of thousands of yuan, while in major offenses, it may be worth as much as one million yuan. The public security organs along the waterways and at various ports have launched a campaign to crack major cases and strike at criminal gangs. Meanwhile, they have strengthened their internal security and their work at the basic level, deflated the criminals' arrogance and ensure the safety of the freight.

Their third task is to guard against and strike at those who steal navigational marks and communications equipment and ensure navigational safety. Right now, there are thousands of ships and boats transporting passengers and freight in inland rivers. The theft and destruction of navigational marks and equipment impose a major threat to navigational safety. The number of cases involving the theft of navigational marks and equipment rose 54 percent in the past four years. There were tragic cases whereas ships had collided because navigational marks were stolen, causing ships to sink and passengers to drown. On the one hand, the public security organs along the waterways and at various ports have relied on the masses in protecting the navigational marks, while on the other hand, they have strengthened their efforts to crack major cases, arrested groups of thieves, punished many habitual offenders and ensured navigational safety.

Their fourth task is to make full use of their superior forces, trace criminals on the wanted list and deal telling blows at offenders who flee hither and thither to commit crimes. During the past four years, they had tracked down 21,000 criminals of all types including 583 vicious ones including many murderers, robbers, rapists and thieves, and cracked a large number of major cases which they had not been able to solve for a long time.

Their fifth task is to ensure safety in ocean-going transportation and to guard against and investigate cases involving criminals who try to conceal themselves in ships, sneak out of the country and carry out drug smuggling and trafficking. There are hundreds of ocean-going ships calling at several hundred ports in more than 150 countries. In the past four years, over 600 people were caught trying to sneak out of the country and engage in smuggling and drug trafficking. Thanks to the efforts made by the public security organs at various ports, over 90 percent of those who try to sneak out of the country were caught at port or on the ship, and drug trafficking activities failed to prevail.

Their sixth task is to strengthen public security and maintain law and order on ships and at various ports. The public security forces on ships and at various ports have earnestly implemented the "Regulations to Maintain Port Security" and the "Provisions for Security Control on Passenger Ships" jointly promulgated by the Ministry of Communications and the Ministry of Public Security, vigorously strengthened security control at the ports and on passenger ships, and done a good job in maintaining public order in passenger transportation.

Since the beginning of this year, public security work at various ports and on ships is still something that merits our full attention. The number of criminal cases is on the rise.

So are other factors of instability. The number of extraordinary serious cases is also on the increase. With the development of the struggle to severely fight against violent crimes, the criminals of various categories in the society will also try to hamper the waterway transportation. Therefore, under the leadership of the public security organs at the higher level, the public security organs along the waterways and at various ports must concentrate their efforts in waging the struggle to firmly strike at violent crimes and severely deal with those criminal offenders who threaten public security along the waterways and at various ports. They must crack violent crimes and track down murderers, robbers and rapists whenever a case is reported. They must also prevent violent crimes and the use of guns or explosives to commit crimes or seize ships by force. In dealing with cases which take place more often such as the theft of freight and passengers' properties, they should try to prevent the larceny cases while severely striking at the thieves. Particular attention must be paid to expose the well-hidden criminal gangs, and resolutely deflate their arrogance. The public security organs along the waterways and at various ports of the Yangtze River

must timely launch campaigns to deal telling blows at the river bandits and thieves, and send out patrol boats to gather information and firmly strike at those criminal offenders who dare to use their arms to seize cargo on ships and rob the crew members and the passengers of their properties. It is necessary to strengthen public security at various ports and on passenger ships. On the one hand, we must seriously deal with those who illegally buy and sell passenger tickets, disrupt social order, carry out various illicit activities such as gambling and the sale and spread of pornographic materials and appropriately handle emergency cases; while on the other we must strengthen our patrolling activities and track down all types of criminals on the wanted list, criminals at large and criminals who flee hither and thither to commit offenses. We must strengthen fire-prevention work on ships, improve waterway traffic and ensure navigational safety. Meanwhile, we must wage an in-depth struggle against corruption; and help public security departments improve their administration, become more revolutionary, modernized and standardized and play an even more significant role in safeguarding social order.

Impact of Direct Taiwan-Mainland Financial Dealings

95CE0015B Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese No 37,
19 Sep 94 pp 7-8

[Article by Wu Feng-xia (070 7685 7209): "Taiwan Lifts Ban On Direct Financial Dealings With Mainland"]

[FBIS Translated Text] Taiwan's Vice Minister of Finance Li Chung-ying [2621 0112 5391] announced in late August the names of the first batch of the overseas branches of Taiwan banks, including the Hong Kong branch of Huashang Bank, to be authorized to deal directly with the overseas branches of financial institutions on the mainland. This move symbolizes the beginning of "circuitous direct flights" between banks on either side of the Strait of Taiwan and promises to be a boon to all three places: Taiwan, the mainland, and Hong Kong.

Financial Institutions On Both Sides of Strait May Do Business Overseas

As we all know, economic relations between the two sides of the strait have developed by leaps and bounds since the mid-1980's despite Taiwan-imposed restrictions. Entrepot trade between the two sides through Hong Kong amounted to 276.7 billion yuan last year, an 18-fold increase over 1987, with a surplus of 50.6 billion yuan in Taiwan's favor. As for investment, Taiwan investment in the mainland has reached \$18.9 billion as of late 1993. More Taiwan foreign investment has gone to the mainland than anywhere else. In fact, Taiwan has become the second largest investor in China. Turning to tourism, 1 million Taiwan tourists visit the mainland each year. In contrast, financial transactions between the two had been lagging badly. It was not until 1990 that banking authorities in Taiwan began to allow Taiwan financial institutions to remit funds to and from the mainland indirectly. In late 1991 Taiwan companies began getting into the "mainland exporting and Taiwan offering hypothecation" business. However, all these transactions must go through foreign-funded banks in a third locale acting as intermediaries. In April 1993, Taiwan promulgated the "Regulations on Financial Transactions between the Taiwan Region and the Mainland." Under the regulations, the overseas financial institutions of Taiwan and the mainland may deal with one another directly without going through an intermediate bank. The regulations, therefore, provide a legal basis for financial institutions in the two places to deal with one another directly overseas. Nevertheless, those regulations came with a pre-approval system, that is, only institutions approved by the Taiwan government can engage in the financial transactions in question. The failure of Taiwan to produce a list of pre-approved financial institutions effectively rendered the regulations inoperative. Direct contacts between financial institutions in Taiwan and their counterparts on the mainland existed on paper only. More recently, however, Taiwan did publish a list and with it "circuitous direct flights" finally took off.

Making Things Convenient for Taiwan Companies and Promoting Economic Relations Across the Strait

Any economic activities create a demand for financial services. As economic and trade relations developed between the two sides, the demand for financial services also intensified sharply. Taiwan firms investing in the mainland, for instance, must transfer funds from Taiwan to China. Investors also need to raise part of their capital in Hong Kong and then remit it to the mainland. The import and export business of Taiwan-funded enterprises on the mainland, the entrepot trade conducted by Taiwan-funded enterprises in Hong Kong, and trading business in a third region all require banking services such as trade hypothecation and the issue of letters of credit. Owing to the rule prohibiting direct dealings between financial institutions on the two sides of the strait, however, Taiwan companies were greatly inconvenienced. Reportedly they were most bothered by the time-consuming nature and costliness of most banking transactions. Since banks in Taiwan and on the mainland could not do business with one another directly, all transactions involving the two sides must go through banks elsewhere acting as intermediaries. Say a Taiwan company wanted to remit funds to the mainland. It first must go to a Taiwan bank and from there the funds would travel to the bank's Hong Kong branch or a foreign-funded bank in Taiwan. Next the money found itself in the hands of an intermediate bank in Hong Kong which would pass it onto a local mainland-funded bank. The latter then remitted the funds to the recipient through a mainland bank. Because the funds were re-routed so many times, the whole process took a long time and was also costly. Second, Taiwan businessmen could not build up a close relationship with banks. With financial institutions on the two sides unable to deal with one another directly, most Taiwan companies relied on foreign-funded banks in Taiwan and Hong Kong to provide services. But since Taiwan companies usually depend on Taiwan commercial banks for most of their banking needs and rarely deal with foreign-funded banks, the latter have little knowledge of their credit position and are therefore more apt to extend loans to them on harsher terms, thus boosting their business costs. Now that banks in both Taiwan and the mainland are free to deal with one another directly overseas, eliminating the use of intermediate banks, Taiwan banks are in a position to provide financial services across the strait legally. Taiwan firms are expected to turn to Taiwan banks more often for financial services. That way they can save time and processing fees. Even more important, they can now deal with banks they are familiar with, making things more convenient all round.

Economic cooperation between the two sides of the strait is highly complementary. As a result, despite the fact that many transactions hitherto had only been indirect and, in the case of financial transactions, extremely indirect, economic cooperation has still been able to make rapid headway. The lifting of the ban on direct contacts will certainly facilitate investment and trade between the two sides of the strait by enabling them to take place under normal conditions. The move will boost economic relations across the strait.

Move Would Benefit Hong Kong Banking Industry

Among the first batch of banks approved by the Taiwan government, 27 are the overseas branches of seven Taiwan financial institutions. And of these 27 branches, only the local branch of Hua-shang Bank is in Hong Kong; the rest are all in other places. Why? Reportedly because Taiwan is looking out for the interests of Taiwan's banking industry, mindful of the change in Hong Kong's status after 1997. As the Banking Bureau in the Ministry of Economic Affairs put it, before the overseas branches of financial institutions in Taiwan and the mainland can do business, they must first sign a contract in a jurisdiction other than the mainland or Taiwan. Since Hong Kong would be under Chinese law after its return to the mainland in 1997, it is argued, there would be less security for Taiwan financial institutions. In fact, only by emphasizing its willingness to assume political risk was Hua-shang Bank reluctantly included in the list. This interpretation, we may say, is inconsistent with facts. Under the Basic Law, mainland laws will not prevail in Hong Kong after it is returned to China in 1997. This is perhaps an excuse seized by a Taiwan still reluctant to see relations across the strait develop too rapidly. The fact that only one Hong Kong branch made it into the list suggests that the latest piece of reform would not do much to stimulate Hong Kong's bi-strait financial industry. On the other hand, we can expect this abnormal situation to be short-lived mainly because 1) Hong Kong is the most vital intermediary in the Taiwan-mainland economic relationship (acting as a middleman in trade, investment, and tourism) with the largest demand for financial services pertaining to the two sides; 2) Hong Kong is the international financial center closest to the two sides of the strait. It also has the highest concentration of mainland-funded banks. It is more convenient and faster to have banks from Taiwan and the mainland deal with one another directly in Hong Kong than in any other city in the world.

In the wake of growing economic and trade ties between the two sides, Taiwan-funded banks have been moving into Hong Kong in droves in recent years. So far Hua-nan Bank, First Bank, and Taiwan Bank have opened branches in Hong Kong. Chang-hua Bank is scheduled to open a branch here in September. Taiwan Bank for Small and Mid-Sized Business, China Trust Bank, and Hua-hsin Bank, which already have representative offices in Hong Kong, are working diligently to upgrade them into branches as soon as possible. The westward march by

Taiwan-funded banks is prompted mainly by a desire to offer financial services to the two sides. As the local manager of a Taiwan-funded bank put it, if the Taiwan government prohibits Taiwan and mainland banks from dealing with one another directly in Hong Kong, it would then be entirely pointless for Taiwan banks to set up branches here. The Hong Kong branches of other Taiwan funded-banks have applied to the Taiwan government for permission to deal with Chinese-funded banks directly and their chances of obtaining clearance are considered good. If granted permission, the local branches of these Taiwan-funded banks stand to capture a big chunk of bi-strait banking, which, in turn, will attract even more Taiwan banks to come to Hong Kong. This will increase the number of banking institutions in Hong Kong and expand the local banking industry overall, particularly bi-strait financial dealings.

Appendix 1 First Batch of Banks Authorized to Do Business Directly with Mainland-Funded Banks

China International Commercial Bank: Its Kuang-hua branches in New York, Chicago, Los Angeles, Panama, the Gu-lang free zone in Panama, Tokyo, Osaka, Bangkok, Paris, Amsterdam, and Canada; Kuang-hua International Financial Company and Chung-mei Bank in Australia,

First Bank: Its branches in Guam, Singapore, London, New York, Los Angeles, and Frankfurt.

Chang-hua Bank: Its branches in New York, Los Angeles, and Tokyo.

Communications Bank: Its subsidiaries in Europe and branches in New York, Singapore, and the Silicon Valley in California.

Hua-nan Bank: Its Hong Kong branch.

Appendix 2 Sequence of Financial Contacts Between the Two Sides of the Strait

Sequence of Financial Contacts When Direct Contacts Were Banned:

Taiwan bank—foreign-funded bank in Taiwan or Hong Kong branch of Taiwan bank—intermediate bank in Hong Kong—mainland-funded bank in Hong Kong—mainland.

Indirect Hypothecation between Two Sides of Strait After Ban Was Lifted:

Taiwan bank—Hong Kong branch of Taiwan bank—mainland-funded bank in Hong Kong—mainland.

Interview With DPP Gubernatorial Candidate

92CM0359A Taipei TIENHSIA [COMMONWEALTH]
in Chinese No 158, 1 Jul 94 pp 94-96, 99-100

[Interview: "Chen Ting-nan (7115 1353 0589): Honest and Competent Provincial Government; Decentralize Authority"; interviewer, date not supplied]

[FBIS Translated Text] [Question] What qualifications does a good governor need? If you become governor, what will you bring to Taiwan that other candidates do not?

[Chen] Before entering politics, I spent 14 years in industry and commerce, successively serving in advertising firms, the Formosa Plastics Group, companies making shoes for export, and foreign trade firms. So during my eight years as Ilan county executive, I introduced entrepreneurial concepts and methods into government administration. That, indeed, is precisely how provincial government should be handled now—entrepreneurially. For administrative efficiency and quality are poor and incompetence far too rampant. We really need to introduce new ideas.

Therefore, when people encouraged me to run for governor, I thought we might be able to expand the Ilan experience to the province, thereby "entrepreneurializing provincial government and transforming Taiwan."

The most important elements needed in provincial government development are improving efficiency and quality and fighting corruption. But the KMT has long been in power and finds it impossible to effect reform, which, to be thoroughgoing, requires complete change of personnel and severing the old umbilical cord. If the opposition party takes over the provincial government, it can pursue reform immediately. Even excluding the issue of corruption, the province has many deficiencies just in terms of efficiency and quality. So I think administrative improvement will yield instant results and that the people of Taiwan will soon discover that they stand on the verge of a brand new era—of fair, honest, and competent government.

I hope to make the people of Taiwan happy to live here. Naturally, this requires that everyone pitch in and help out and that we pool the wisdom and effort of all.

[Question] What is your blueprint for provincial government?

[Chen] Actually, in the existing, overall administrative structure, the province is most unnecessary. There are four tiers in the system: center, province, county, and township. The center is responsible for setting policy and monitoring performance thereof. Save for the part that is directly implemented by the center, the majority in fact is handled by local government. There is neither worth nor need for the provincial government to exist, so the DPP all along has called for its abolition. Now, this is a simple way of putting things. A more accurate approach would be to reevaluate the administrative structure and reduce the four tiers to three or two. Regardless of party or factional affiliation or whether one is in the government or out, everyone recognizes that four tiers create much needless redundancy.

The DPP has always advocated returning authority to localities. Thus, if the province truly returns to constitutional rule and implements local autonomy as provided by law, then, frankly, there is nothing left for it to do. Under the current constitution and law and regulation governing public policy, the province should not administer anything.

But reality is different. So if the DPP manages to take over the provincial government, it should abide by the spirit of the constitution and properly carry out the province's work and role. Reform is gradual, cannot be accomplished in a single leap, and must be sequenced.

Authority to set most public policy and part of the legal system is supposed to belong to local government but in fact has been usurped by the province. For example, the Mining Law stipulates that the authority to approve extractive rights belongs to localities as a matter of local autonomy. Yet all the province had to do was issue a decree and extractive enterprises were forced to apply directly to the Taiwan Bureau of Mining for those rights. This constitutes clear and illegal infringement of local function and authority.

Then there is "abominable law." In the area of authority over personnel, for example, positions at grade six and above still require provincial appointment. While the decree regarding this issue does have its legal provisions, it still constitutes serious infringement of local autonomy.

After four years in office, a county executive, who is popularly elected, must assume the political responsibility for his successes and failures before the electorate. It is unreasonable to expect him alone, save for a single confidential secretary, to take over a group of incumbents appointed by someone else. This is what is meant by "abominable law."

The recently passed Law Governing Autonomy for Province and County permits senior administrators to come and go with county executives. This legislation therefore represents progress yet remains mere statement of legal principle. There is as yet no explicit stipulation as to whether or not appointments to grade six or above must be approved by the province, and it remains highly questionable as to whether or not the province will actually relinquish authority.

Another issue is taxation, or distribution of financial resources. The best taxes, the meat and the potatoes, have been gobbled up by the center and province, leaving localities chicken feed. These laws governing personnel and taxation are abominable and haven't changed for decades.

Why should the province be so "worried" about local affairs? Because authority means money, and more than 30 percent has been usurped. I believe the situation can slowly be corrected if the opposition takes over.

[Question] You run for nomination as DPP candidate for governor yet advocate gutting the province. Isn't that contradictory?

[Chen] This is a transitional period, during which the province temporarily continues to control considerable financial resources. I believe we can distribute these resources reasonably. Possessing such authority, the province will continue to wield some influence over localities.

I believe it will be easier to promote reform if the opposition wins control and staffs the administrative system.

[Question] What will the relationship between province and locality be in the future?

[Chen] In the area of development, the province should guide, coordinate, and assist localities and provide planning with respect to local advantage and need. By responding to local need and enabling localities to exploit their advantages, the province will through planning oversee and guide localities technologically and financially; encourage them to exploit their advantages; and not insist on "complete centralization."

Under authoritarianism, Oriental societies have been prone to "complete centralization." Our education has always emphasized patriotism, but this has degenerated into vague generality and dogma and in fact must begin with the family. We should begin by taking care of our own families, then our communities, and then advance to the strata of the province, county, and country. Caring for one's family, cherishing one's village, and loving one's country constitute a progressive, orderly process and the only way that will enable us to rebuild Taiwan's system of values.

In the United States, for example, the people are the real masters and decide all national policy. Urban planning there requires participation by the people living in the communities involved. Popular participation in decision-making is required by law there, whereas our respect for the will of the people ends formalistically, in campaign advocacy and candidate debate forums. Popular participation is granted by Taiwan's administrative chiefs as "pretty show of virtuous generosity" yet is required by law abroad.

Since all decision making flows bottom-up and is based on popular will, the American people believe their communities and country belong to themselves. So whenever their country encounters adversity, even the common folk feel obliged to defend their homeland.

I believe that respect in decisionmaking for popular will and implementation of the spirit of returning autonomy to the people will immediately help establish an entirely new system of values.

I believe that during this transitional period the province should help guide county and city governments in the establishment of democratic decision-making procedure.

[Question] Will thorough implementation of local autonomy cause localities to abuse their authority and even chaos?

[Chen] No. Local government can decide only local matters, and residents have autonomy to run only community affairs. Neither can overstep its authority or fish in other

waters. In the area of land use, for example, the center sets national policy. The province then sets regional plan on this basis. Then county and city governments use these bases to formulate comprehensive development plans for their jurisdictions. Then city and town-township governments accordingly draw up programs for each of their districts for urban and rural land use. Still, townships should decide how much land is to be allocated, and residents should jointly determine how to plan, design, build, and administer parks, for example.

Mistakes are inevitable, but we learn from these. Indeed, this is the price of democracy. For democratic process is an invaluable learning experience for both individual and society, and any individual or society that hasn't "learned to be his or its own master" is unlikely to mature.

What should we do if localities become too autonomous or other slip-ups occur? Actually, we should not be overly concerned about such teapot tempest. Indeed, the very idea behind local autonomy is to reduce the risk of major fiasco occurring at the broadest level. Think about it. What we are doing is returning the authority wielded by the centralized and grasping province to 21 county and city governments, each of which in turn divvies up the authority it receives among 10-odd towns and townships, which divide that authority again among 10 villages or communities. In this fashion, authority is subdivided just as the hull of a ship is into watertight compartments: Large compartments yield to medium ones then to small ones. So even if some communities make mistakes, the whole is not endangered. Local autonomy thus is safer than centralization. That is the same principle that makes ships subdivided into watertight compartments safer than those that are not.

[Question] Most people know that besides your concrete successes in the development of Ilan, you also have a very strong anti-corruption image. In improving administration, you have been sought fairness, honesty, and competence. Do you have any specific views on how to combat and eliminate corruption in the provincial government? And do you think that effort may encounter difficulty?

[Chen] I see no difficulty. Whatever the province itself must do will not be difficult at all. Indeed, its requirements of localities will also be achievable.

Most of the problems lie in construction, where the province has never fulfilled its oversight responsibility. In my view, urban construction, for example, should be undertaken by local government, so the money therefor should be handed over to the latter. As for construction carried out under urban development programs, the Bureau of Housing and Urban Development, in view of its current organization and manpower, might continue to provide planning but by no means needs to issue contracts any more. Since most of the problems occur in contract award, that work can be turned over to counties, towns, or townships.

The same goes for government procurement. For example, the costs of buying a ream of paper having the same specifications in, say, Taipei and Taichung should be

published at regular intervals. The province can do a better job in this area if it takes a stand to "prevent abuse" and manages things scientifically and effectively. In the future, the province can be linked by computer to county and city governments and thus can call up and examine information regarding the control, procurement, and contracting of goods and materials at any time and publish this data every month. Under a control system so transparent and perfect as this, the abuses that long plagued us in the past will simply disappear.

People often say that we get the government we do because man is evil. The Ilan example suggests otherwise: We get the quality of people we do because of the quality of government we have. Government definitely has the power to transform Heaven and Earth. If the people at the top respect law, work solidly, effect rule by law, take the lead, and serve as exemplars, the whole picture will immediately transform, and vicious circle will become salubrious.

[Question] Some people say Chin Ting-nan is anti-business. What do you say to that?

[Chen] The approach I employed in Ilan may have created this impression. There, I rarely socialized and rarely dined with business big-wigs. If an issue arose, anyone was welcome to visit our offices to discuss it, but there was no need for dining. And the shameless, brazen big shots who traded on ill-gotten special privilege were dealt with mercilessly. People like these, therefore, have hard feelings toward me.

For another example, county assemblymen suspected I was bent on crushing investment in tourism when I shut down illegal tourist districts. To the contrary, I welcomed such investment with open arms, so long as the industry acquired land and applied for building permits and operating licenses in accordance with law. Ilan welcomed that.

I have not opposed business. What I oppose is illegal special privilege, illegal collusion between businessmen and government officials, and money politics. Indeed, most law-abiding small and medium firms were very supportive of my approach. The only people who think I am anti-business are those businessmen who obtained special privilege illegally. [Question] Other people criticize you for being a lone ranger and not given to working with others [Chen] That's because I don't belong to factions.

In the Legislative Yuan, I refused to completely and unconditionally support faction. I supported things that were right but did not support those that weren't. Factions have interests. When they decide an issue, the entire membership has to support the decision, right or wrong.

Moreover, how could I have been a lone ranger in governing Ilan? County government requires teamwork and pooling of ideas and knowledge. I frankly don't have three heads and six arms and couldn't have run all that work by myself. Indeed, I believe Ilan led Taiwan in stressing the importance of expert advice, including policy planning and the formulation of major construction projects.

So such criticism should be construed to refer to my ideology and political stands. In administrative affairs generally, however, the charge simply does not wash.

Antonio Chiang Previews Year-end Elections

94CM0380A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 385, 30 Jul 94 pp 58-59

[Article by Szu-ma Wen Wu (0674 7456 2429 2976): "Li Deng Hui Is Playing a High-risk Election Gamble"]

[FBIS Translated Text] The popular election of the provincial governor and mayors is a key step in the development of democracy in Taiwan, but the nature and culture demonstrated by the Kuomintang and the Democratic Progressive Party during the primary elections were very different. The conservative, tradition-bound style of the Kuomintang formed a stark contrast with the enterprising initiative of the Democratic Progressive Party.

The nominees of the Kuomintang were all incumbents. All of these incumbents came forward openly only after their possible opponents were securely determined. The chairman of the Kuomintang controlled the entire nomination process from behind the scenes. The opinions and preferences of the party chairman determined everything. And some candidates used undying loyalty to Chairman Li as their appeal. In contrast, Chairman Shih Mingde of the Democratic Progressive Party took a detached position throughout and everything was determined by the functioning of the party's internal primary election system. The candidates emerged only after undergoing a fair and intensely competitive process.

The Kuomintang's primary election process carried on in a flurry for several months, giving the appearance at times of unfathomable confusion. Actually, this was just the result of groundless allegations by the media, brought up to fill up column space. In the end, they returned to their original positions, which they could have retained with no extra effort, because all of the final nominees were incumbent mayors and the governor. The business community immediately sought the good graces of the nominees and placed supporting advertisements in the newspapers. Local politicians seeking to attach themselves to power and influence gathered to support the nominees, and all was just as it was before this process.

From the beginning, the Kuomintang took a reactive approach. They not only could not decide upon a date for the gubernatorial and mayoral elections but also on whether the Vice Governor and Governor should run as a pair. Should the provincial and municipal representative elections be held at the same time? When should the provincial and county self-governing regulations be passed by the Legislature? The Kuomintang could not come to a decision on any of these issues. This was because they were continuously worried that this election would cause further internal divisions in the Kuomintang. They worried about the Yeltsin effect. They worried about this, they worried about that. They seldom saw this as an opportunity to cultivate leadership talent or as an opportunity to create political capital for the Kuomintang.

In contrast, the Democratic Progressive Party saw this as an opportunity to mobilize all of society's resources, a path to provide practice and experience and elevate the political qualifications of talent within the party. Each candidate had already had a wealth of campaign battle experience and was now eager for the next struggle.

But the Kuomintang nominees were all incumbents and really had no campaign experience. They were not confident of their vote resources but had to rely on all the efforts of the central party to assist them in the election. This approach, however, could achieve a passive goal which was to avoid the Yeltsin effect.

The motivation for using Song Chu-yu instead of Wu Bo-hsiung were particularly clear in this respect. Song Chu-yu is not only a mainlander who cannot speak Taiwanese, he also lacks local resources. His future campaign must be personally orchestrated by Li Teng-Hui. He is totally dependent on Li Teng-Hui's support. The basis of his popular support is totally dependent on Li Teng-Hui. Thus it would of course be very unlikely that anything would occur like the story of Yeltsin's challenge to Gorbachev.

Huang Ta-chou's situation is somewhat different. The Democratic Progressive Party has a great deal of influence in Taipei. The new party is also looking on covetously. Huang Ta-chou was not the Kuomintang's best candidate. The results of his popular support poll were extremely low. No one dared to support him. Hsiao Wan-chang and Ma Ying-chiu, however, insisted on keeping Huang Ta-chou. He had the advantages of incumbency and was a member of Li Teng-Hui's clique. Everyone within the party tried to guess the leader's intentions but finally presented Huang Ta-chou.

These two nominees were very disappointing to outsiders. Reformists within the party could only shake their heads and sigh. Could it be that these last few years of reform were only superficial? Otherwise, why this backtracking?

But from the point of view of the Kuomintang faction currently in power, the socioeconomic structure of Taiwan had not changed in its basic nature. In the past whoever was nominated by the Kuomintang was elected. This situation has not changed much now.

It is not that the Kuomintang candidates are superior but that the Kuomintang has rich socioeconomic resources. No matter how superior the talented persons of the opposition parties are, their resources within their parties are a far sight from at the traditional organizational base of the Kuomintang and "Sun Yat-sen." The Democratic Progressive Party could not match any of this.

Song Chu-yu and Huang Ta-chou have never once in their lives given speeches in the street. They are about to face the fierce debating skills and sharp rhetoric of their Democratic Progressive Party opponents. The results of this battle are already known before the battle is fought. Song Chu-yu's record during the martial law period will be brought out for particularly harsh criticism. He will most likely be attacked from both the right and the left and beaten to a pulp by the new party and the Democratic

Progressive Party. And no matter how prettily Huang Ta-chou's political record and image are packaged, it will be difficult for him to even sell his picture. When compared with the mayors of other capital cities in Asia, he is really too doltish. He does not match the personality of the Taipei metropolis.

But from the point of view of Li Teng-Hui and others, these are not problems. This is because Li has been the mayor of Taipei and the provincial chairman and he knows what it is all about. Although Song Chu-yu lacks a base of popular support, who among his predecessors such as Chiu Chuang-huan, Lian Chan, Lin Yang-kang or Li Teng-Hui himself had popular support? If Huang Ta-chou is not acceptable, then who did a better job among the preceding Taipei mayors such as Wu Bo-hsiung, Hsu Shui-de, Lin Yang-kang or Li himself?

Because the walls around politics are high, those who view politics from the outside assume that those on the inside are martial masters with clever tricks up their sleeves. But the longer people spend on the inside of political circles, the more they look down upon their peers. They seldom appreciate each other. Some politicians appear courteously interested in matters outside their realm, to show respect for public opinion. Others are basically too lazy to pay any attention at all. They deliberately let those who would clamor to the death carry on without relief until they become barking trains.

This is the political culture created by a long period of martial law. What was the difference between Chiang Ching-kuo's anointment of Chang Feng-hsu as Mayor of Taipei and Li Teng-Hui's nomination of Huang Ta-chou as Mayor of Taipei? The question is whether Taiwan today is still like it was before, when whoever the Kuomintang nominated became elected. This time, the Kuomintang has laid down a large stake. Because the Kuomintang view is that the overall situation has not changed and political power can be retained using the traditional methods, there is no need for major correction. This is because any reform brings risk and threatens the advantaged class.

Power makes people indolent. Those with power definitely do not want to change the status quo. This is not at all strange. What should be considered strange is not that the Kuomintang would nominate these types of people but the reason each time the Kuomintang nominates someone, everyone obediently votes for the Kuomintang ticket.

Whether you believe it or not, the Kuomintang's wager this time is that they think the performance of the incumbents has been good and that party resources are more important than individual qualifications. They think most people are satisfied with the status quo. They think that the Kuomintang can continue to be the governing party without cultivating talent. They think that this method of nominating people is already fair competition in a democratic political party. They think that the real Kuomintang candidate in this election for governor and mayors is Li Teng-Hui. Whoever supports Li Teng-Hui will support the candidates he has nominated.

This wager is a test of popular support and trends. There has been a tremendous change in the political atmosphere in Taiwan from the time martial law was lifted until now. But this election will provide concrete evidence to show exactly how much change has taken place in the election system and the political culture.

This is a tremendous wager. If the Kuomintang wins, it will be a major victory for Li Teng-Hui; power and influence will be even more concentrated in one person. This will not bode well for democracy. If the Kuomintang loses half of the elections and the parties come out about equal, it might hasten the development of a democratic system. If the Kuomintang loses both the provincial election and the mayoral elections in Taipei and Kaohsiung, then the next president will probably be a member of the Democratic Progressive Party.

Feudal Culture Hinders Political Progress

94CM0380B Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 385, 30 Jul 94 p 9

[Article by Szu-ma Wen Wu (0674 7456 2429 2976): "The Feudal Culture Left Over From the Long Live Chiang Kai-shek Period Has Still Not Changed"]

[FBIS Translated Text] During the Chiang Kai-shek period of the past, to be a high official, one had to, first, memorize the Three People's Principles; second, understand the Confucian Way and the Yangming theories; third, be able to write calligraphy with a brush; and fourth, be able to shout long life to the leader. Now these four requirements have changed to, first, be a favorite of the Party Chairman's; second, be able to generate influence through the media; third, be able to sing; and fourth, be able to cry.

These four requirements appear to have changed from the past, but are really the same in spirit. The basic nature of the Kuomintang officialdom culture has not changed.

On July 20, Song Chu-yu made a report to the Kuomintang Central Standing Committee. Many of the committee members were full of praises for him, some even using four-line pairs of rhyming couplets, like the stilted prose used for flattery in ancient China. This type of repulsive obsequiousness is also an indirect emotional message to Chairman Li.

Even if Song Chu-yu were an exceptionally talented person, an irreplaceable candidate for provincial governor, this type of praise would still give people gooseflesh. What's even worse is that since the Kuomintang wants to conduct a primary election, they should at least maintain appearances. They have even given up on appearances and seem to have returned to the days of Long Live Chiang Kai-shek. This type of news really turns people's stomachs.

Li Teng-Hui sees himself as the Kuomintang's patriarch. He personally visited Wu Bo-hsiang's father, Wang Yu-yun, Cheng Tian-miao, and others. Some he urged to withdraw, others he consoled, and others he urged on. This work style is very effective from the point of view of Taiwanese customs. Most people cannot resist the courtesy of a personal visit to their home by the President of the nation.

But this type of reliance on one's personal reputation is seldom seen in political leaders of modern nations. This approach is more like that of the Japanese habatsu leaders than that of the head of state of a democratic nation or the chief of a democratic political party.

As soon as the Kuomintang candidates emerged, members of the business community immediately put advertisements in the newspapers showing their support in a nauseating fashion difficult to describe. This is also feudal culture handed down from the era of Long Life.

The long-standing practice of the three television stations of creating influence for particular candidates is difficult to change. Every time this happens, it becomes a "media circus." But the "The Upright Magistrate Pao" broadcast by the three stations twenty years ago is still the same Magistrate Pao today. It seems that this upright old man reassumes office on a periodic basis. Astute citizens have continuously criticized this ancient feudal play but Magistrate Pao still draws a large audience. Perhaps the Kuomintang has discovered in this the pulse of Taiwan society, so they keep replaying the same script from the past!

Hisahiko Okazaki on PRC-Taiwan Policy Options

95CM0014A Tokyo YOMIURI SHIMBUN in Japanese 19 Sep 94 pp 1, 2

[Article by Hisahiko Okazaki]

[FBIS Translated Text] Japan's Painful Response

An issue relating to President Li Teng-hui's visit to Japan was resolved for the time being. Here, however, I would like to reexamine this issue, which was hotly debated here and abroad.

In fact, a similar problem also occurred in the United States. In May, when President Li was passing through Honolulu and requested an overnight stay there, he could not obtain a visa from the United States and was stranded at the airport during the refueling. Recently, the Senate took up this problem and decided with an unanimous vote of 94 to zero to issue visas to high-level government officials from Taiwan in the future. An editorial in the NEW YORK TIMES also criticized the discourtesy of the U.S. Government. According to the recent public opinion in the United States and the climate at Congress, it is predicted that the administration will eventually agree with the Senate's decision.

Neither Japan nor the United States has official diplomatic relations with Taiwan, but they both have friendly relations with the country in economic, sports, and other various areas. As the countries have no diplomatic relations, official visits may cause some problems. But, judging from common sense, it seems going too far not to permit a mere stop-over stay. Therefore, the Senate's decision was made unanimously.

In the case of Japan, it was about an issue of participation in the Asian Games, to which Japan itself as a member nation has promised to be discreet by not letting politics

get in the way. Naturally, many people voiced that Japan should not have refused entry of the participants from Taiwan into the country.

However, this issue has a side that cannot be reasoned out by common sense. Here, I have referred to Taiwan as a "country," because there is no other way to refer to it. If I may bring up another reason, it is because no one can deny that Taiwan has territory and citizens, governs itself effectively, and satisfies all requirements under international law. Therefore, I can make such reference, because I am a mere private citizen. However, the Japanese Government and the press would never dare to do so. Also, every Japanese citizen refers to Taiwan as "that country" almost as a matter of fact, and there is no other way but to call it a "country" in English as well. Why did the issue evolve into this kind of senseless argument?

I have no intention of blaming Japan's Ministry of Foreign Affairs, the U.S. Department of State, or the Japanese press on this issue, because no one takes pleasure in causing problems. The Japanese Government places high priority in not damaging its friendly relations with China, an important neighbor. If it is warned by China, saying, "If you do that kind of thing, you will damage our relations," Japan will try to avoid doing "that kind of thing" to keep peace at any price, at least for the moment. Newspaper companies will also suffer if their correspondents are expelled.

Instead of giving a make-shift response, refusing firmly to accept that unreasonable interference is good for friendly Japanese-Sino relations in the long run—this argument has a far more legitimate ring to it. But, it seems too harsh an argument for government employees, mere salaried employees after all, who will have to take responsibility for all kinds of troubles that may occur a year from now, or even within a couple of weeks. As the true wish of the majority of government employees and the press is "not to make China angry," I would like to appeal directly to the People's Republic of China in this article, rather than blaming each other among the Japanese.

Instead of limiting my discussion to such small issues as the recent issue of participation in the Asian Games, which I believe sensible people in China might have already thought too small an issue and childish, I would like to delve into the core of the Taiwan issue.

The Majority Will Welcome Independence

Since I left my public office, I have visited Taiwan, made personal observations about the country and people, and formed my own opinion about the future of the Taiwan issue. I believe that the Chinese Government knows this. In February this year, I lectured at a seminar in Beijing, but wanting to avoid any trouble to the sponsor, I did not touch on the Taiwan issue. However, as attendants at the seminar had already read my thesis and their questions were focused on the Taiwan issue, I answered as much as I could.

In sum, my arguments are as follows:

I am neither saying that Taiwan should become independent, nor that I support Taiwan's becoming independent. Rather, I am simply predicting objectively that Taiwan's becoming independent is inevitable, and providing this prediction for policy consideration. My prediction is based on the following two reasons:

First, the majority of the people in Taiwan are hoping for independence. Although almost half of the people may be considered as cautious individuals right now, they are cautious to the extent of saying, "We don't have to irritate Beijing after so long a time by insisting now to become independent." Therefore, if independence can be achieved through peaceful means, almost no one will oppose it. Furthermore, the opposition party that has the backing from forty percent of the citizens is publicly supporting independence. At the seminar in Beijing, I referred to the "Taiwan White Paper" issued last fall by the Chinese Government, and pointed out that although it was the first-rate work with fine details on historical studies and legal arguments, its overall value and credibility suffered from a factual error in its assessment that the pro-independence group in Taiwan was "extremely small."

The Current Policy Invites U.S. Objection

Second, Taiwan is now a liberal democratic country through and through. If it pursues independence, the United States will have to support it ideologically, because it originally won its own freedom and independence from Britain. Liberalization of Moscow was reported on TV, but that of Taiwan was not. Therefore, it may take time, but once the public and Congress of the United States recognize this fact, the United States will move fast. So did I predict, and the prediction now seems to be right on target.

This is simply my prediction for the future, and I certainly welcome any opposing views. And, if there is any evidence to support such views as that if a thorough opinion survey is conducted, it will prove that the majority of the people in Taiwan opt for unification with the Mainland China rather than independence, or that as Taiwan is still a police state with no freedom of speech or association, the United States cannot support it, I will correct my prediction for the future without any hesitation. Such is the case of an analyst of current affairs. Otherwise, unless such evidence is presented, I will not change my prediction. Forcing me to change my prediction is nonsense, like having Galileo accept a view that the universe is spinning around the earth.

In formulating a policy, it is dangerous to ignore the reality. Based on observation of a general trend, a country must set its policy objectives by considering how to maximize its national interest within that trend. My prediction cannot be correct one hundred percent of the time. But, as long as it is within a certain range of probability, government administrators have a responsibility to take it into consideration in forming their policy.

Let's consider this from China's viewpoint. I believe that if it is probable in fact that Taiwan will eventually become

independent, the best policy for China is to recognize Taiwan's independence ahead of all other countries and to form an alliance with it.

If China takes the lead in recognizing Taiwan's independence, it seems highly likely that the people in Taiwan will welcome this enthusiastically, and that the country will become the most friendly nation to China. By doing so, China will be able to solve almost all of its security problems along the Pacific coast and focus its attention to the development of its nation.

When and only if this happens, it will become possible to create a strong alliance based on the same language and the same race. The United States became independent from England, and the reason why the international supremacy of Great Britain and the United States has been maintained after two or three crises throughout the 20th century is the alliance between them. After crushing the Austrian army, Bismarck resisted his military's insistence on an triumphant entry into the fortress in Vienna, and magnanimously concluded a peace treaty with the defeated nation. By doing so, he created the German-Austrian alliance—which is considered his best work—and enjoyed his supremacy in the center of Europe for half a century by fortifying the area behind Germany completely. The China-Taiwan alliance may provide China with political power that can be thought of as a threat by the neighboring countries. Ironically speaking, a defect of this best policy may lie in a possibility that as in the case of the German-Austria alliance, too much success can alarm the neighbors.

The worst policy is to stick to the current policy by entertaining a slight hope that Taiwan will eventually submit to the Mainland China. In the meantime, the U.S. Congress and public will become more and more inclined to support Taiwan, and the United Nation will become increasingly supportive of Taiwan's entry as its member. All this will weaken China's position. If China dares to mention the use of its military power, that will make enemies out of the public in the United States and strengthen the wariness of the people in Taiwan, driving them far detached from the Mainland China.

The middle-of-the-road policy may be several variations of the best policy. By simply taking the initiative in proposing Taiwan's entry into the UN membership, China will be able to gain many concessions, both tangible and intangible, from Taiwan. Of course, a middle-of-the-road policy has its own defect. If China holds fast its socialist ideal and does not give up its ultimate objective of unification, the wariness on the part of the people in Taiwan will remain. In that case, China accepts Taiwan's independence in effect, but it does not necessarily make an ally.

The Japanese Reluctance To Intervene

Up to this point, I have made no mention of Japan's national interest or the mutual benefits for the Japan-U.S. alliance, but instead, I have considered strategies from China's viewpoint. Now, I would like to turn to Japan's position.

I have avoided such arguments as whether or not formation of a China-Taiwan axis, which may take the lead in Asia and achieve a regional stability, will be good for Japan, or if continued conflicts between China and Taiwan will be better for Japan. After all, China and Taiwan must decide themselves, and Japan practically has no power of influence in promoting or deterring such a decision. Interference in such a decision will by itself complicate the issue. Japan needs to assess which way the situation will evolve, and given that assessment, it simply has to consider some response measures. Here, assessment of the situation will come before policymaking.

Rather than pondering on such a long-term effect, if China takes a flexible posture toward the Taiwan issue for now, Japan's diplomacy will become much easier to handle. If China acquiesced President Li's attendance in the Asian Games, we could have avoided such criticism as, Japan allowed China's excessive intervention. In fact, severe criticisms against Japan also appeared in U.S. newspapers. In addition, I believe China should also be aware of the existence of resentment toward China's intervention over domestic affairs in Japan.

Politicians by nature don't talk about things that are contrary to their own benefits. The reason why a Cabinet member after another still continues to make a slip of the tongue is that those statements are not based on their calculations, but on their own true feelings. Behind all this exists public opinion that is against foreign intervention and sympathetic to these politicians. Within two or three years, we will not be able to restrain such opinions from exploding, I believe. When that happens, the Japan-China relations will experience a crisis.

Whether to avoid such a crisis flexibly, or to continue to take the same old line—this is one of political choices China must make in the future.

Profile of the Author

Mr. Hisahiko Okazaki was born in 1930 in Dairen, China. He left Tokyo University before completing his study, and joined the Ministry of Foreign Affairs. He served as Japanese minister to the United States, chief of the Information Research Bureau, and Japanese ambassador to Saudi Arabia and Thailand.

Armed Forces Support Kuomintang Despite Disclaimers

94CM0361A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 382, 9 Jul 94 pp 16-17

[Article by Yang Ho-lun (2799 0735 0243): "Prehistoric Age Oral Teaching Currently Very Welcome in Armed Forces"]

[FBIS Translated Text] Even though the Legislative Yuan and the Executive Yuan have been arguing incessantly about the time and form of the year-end elections, within the armed forces the political warfare system is quietly moving ahead with preparations on an unprecedented scale for a Kuomintang by-election foundation consolidation exercise known as the "hero-training plan."

The Kuomintang's party activities within the armed forces have been completely halted as Minister of Defense Sun Chen [1327 7201] claims. Instead, they are being conducted more intensely and with stricter secrecy for the unprecedented major elections for Taipei mayor, provincial governor, and president. The General Political Department has even gone so far as to issue a political task training order for "mobilizing every person, paying calls on families, putting cards in people's hands, and getting out the vote," and for "maintaining secrecy, maintaining solidarity, working unremittingly, and burning orders after reading them."

A source in the armed forces political warfare system disclosed that the Kuomintang's armed forces "voting corps" used the code name "evergreen plan" as the code word for a series of foundation consolidation training exercises. However, fed up with criticism from opposition parties, in 1993 Minister of National Defense Sun Chen began to assure the outside world that "there will be no more party activities in the armed forces." Actually, the code name for mobilization training was simply changed from "evergreen plan" to "hero-training plan," and efforts made to enlist the votes of party members. It was also strictly required that every effort be made not to issue any documents, or to burn after reading any documents that were issued. It was particularly forbidden to keep records of telephone conversations. Instead, messages were to be delivered by messenger. As a result, there have been no disclosures for more than a year.

In order to hoodwink the public and prevent damaging information from falling into the hands of the opposition parties, the armed forces political warfare system issued an order prior to the election for full implementation of a "clean up plan" as well. This plan provided instructions on the disposal, concealment, or burning of party materials according to regulations. Every unit also held sessions to evaluate and compare compliance.

The "clean up plan" also required that all Kuomintang recruitment plans or terms be expunged from public records in Tingying District "as thoroughly as the requirement in previous years to prevent the infiltration of Communist Party symbols and terms!" said a senior intelligence officer.

The hero-training plan foundation consolidation exercise was to be projected ahead to election day. Half a year in advance, the pertinent materials and forms were made ready. (This may be changed in 1994 to three or four months ahead of time.) Most important of the materials was each unit's mobilization register. The forms contained even the number of voters in each party member's family. The political warfare system at all levels also required a listing by first, second, third, and special level combat zone and administrative district (to be readjusted for the election district each time). Statistical tables were to be prepared showing the voting place, the township and town, and the county or city of party members to be mobilized, these tables forwarded up through the system.

Each month, these mobilization combat reports were to be increased or decreased as party member soldiers changed,

revised reports filed monthly. All "combat reports" went from companies and battalions to the Ministry of National Defense, to the Kuomintang Central Party Headquarters for inputting into a computer information system along with reserve forces system information. The party headquarters then issued final mobilization orders based on the "combat situation." During the frenzied pre-election period, mobilization orders were revised weekly or daily right up until election day morning when the final "mobile unit" was released. This complex, constantly changing, and thankless task, which everyone knew to be a violation of the constitution and which required the issuance of orders, was the major bugaboo of everyone engaged in political warfare.

Before the election, the key operational personnel at the division and brigade level of every service arm and every army had to go to Musha for three to seven days of secret training and instruction. During 1993, this training was covered under the names of "basic level manager training," and political warfare cadre training.

In order to prevent exposure of the foundation consolidation exercise voting corps, and its becoming an opposition party complaint, the armed forces also issued "Exercise Personnel Standard Operating Procedures" as part of its training as follows:

1. All work in plain clothes, paying close attention to boat and vehicle safety.
2. No discussion of personal background, being on guard against entrapment.
3. Stay away from places where trouble occurs to avoid plots to shift blame.
4. Provide more moral government propaganda guidance, and do not engage in pointless arguments.
5. Maintain organizational contacts, and mobilize relatives and friends.
6. Do not forget to express thanks when requesting a favor, and return to work on time following absence or vacation.

The three main principles for testing and verifying mobilization capability are "secrecy, speed, and reliability."

All mobilization order activities became "military secrets." Therefore, nonparty personnel in the armed forces were not privy to them. Moreover, their scheduling was also highly computerized. All mobilization capabilities and support objectives were assigned computer codes. For example, the code for party card was: [none given]

The code for national recruitment was A001, meaning the party member joined the party in the armed forces. The code for Taiwan recruitment was B002, meaning the party member was recruited by the provincial party headquarters system. The party cell recruitment code was C003, meaning that the party member belonged to a grassroots level cell. Other codes in alphabetical order were D for cell registration, E for Guangdong fellow provincial organization recruitment, F for Guangzhou City organization recruitment, G for Hainan fellow provincial organization

recruitment, H for Hangzhou City organization recruitment, I for Fujian fellow provincial organization recruitment, K army and Taiwan provincial system registration, L for cell registration, M for railroad administration registration, O for Guangdong and Guangzhou organization registration, P for Hainan organization registration, and Q for overseas registration. R was used for other, and the computer code for other was 018. In 1993, only the national army recruitment numerical code A001 and the Taiwan provincial party system recruitment numerical codes B002 were changed. The national recruitment code became A002. All other codes were to remain unchanged until the end of 1994.

Other codes were assigned for males, females, cell leaders, and personnel in charge of culture and health in other records such as for political warfare. Beginning in 1993, all these codes were ordered eliminated. No longer were they to appear in political warfare documents. However, mobilization work naturally continued secretly for a long time.

By-election mobilization orders in the armed forces for the period from the end of 1992 until the end of 1993 were relayed as three major word-of-mouth instructions in training as follows:

1. This mobilization affects the government's and the country's image. It has a great affect on the future. By winning the election (the ruling party) can consolidate its base for mainland recovery, deliver blows against Taiwan independence groups, and express public opinion at the grassroots level. The best plan for political warfare is for all comrades to unite as one in holding fast to a spirit of altruism for complete mobilization to win complete victory.

2. The election assistance activities in which we take part are those of individuals spontaneously doing all possible to discharge their duty. This work positively cannot become a topic for gossip taken from written materials.

3. We face two tasks in the upcoming elections:

- 1) To work with might and main to support the plan for the smooth election of National Assembly members, and to gain control of the national defense budget.

- 2) To support the central committee's plans for the election of county magistrates and city mayors, doing all possible to win victory in setting up and perfecting an administrative system framework.

In order to provide protection for the budget, the military system mobilization order in the last previous elector of legislators contained a resounding call to "solidify hard votes to protect national defense."

In addition, the foundation consolidation exercises at the end of 1993 and the beginning of 1994 contained so-called "flexible thinking essentials" for "political combat" as follows:

1. Ability to solidify the foundation: stand by the party not personalities.

2. Ability to develop relationships: seek relationships, draw on relationships, and use relationships.

3. Ability to disassociate others: obtain recruits through propaganda.

4. Ability to differentiate across generations: soothe anti-party persons.

In addition to the highly difficult tasks of "mobilizing individuals, paying calls on families, putting cards in people's hands, and getting out the vote," and maintaining secrecy (security preservation), uniting as one (an administrative organizations), and working unrelentingly (winning the election to take power), the party system in the armed forces also had the so-called three mobilization wants (wanting people who are qualified, wanting people who are responsible, and wanting reform), and three not wants (not wanting people who act rashly, not wanting people who act violently, and not wanting people who are for Taiwan independence).

It also had three major instructions for by-elections:

1. Pass along the succession: interaction between old and young party members and old and young party cadres is needed.

2. Pass along the truth: support political task instruction; do not pass along second-hand information.

3. Pass along abilities: clearly define responsibility for building unit capabilities.

Personnel in charge disclosed that during the two mobilizations at the end of 1993 and the beginning of 1994, for example, not only were "reactionary elements" holding numerous opinions sent on vacation to diffuse their influence, but advance lectures were given to all the mobilized troops, tasks assigned them from a candidate support plan name list. Fearful of not handling matters correctly, even photocopies of newspaper clipping scrapbooks were sent in person together with free transportation passes. Furthermore, the transportation passes were all for first class carriers like the Chukuang and the Kuokuang. They were also for round trips. This was a change from the usual situation of "difficulty obtaining first class passes."

In addition, not only did these two mobilization release Kuomintang party member military personnel to vote, but also pro-Kuomintang supporters that the political warfare system had vetted. The goal of this "air drop" was to mobilize voters, as the Kuomintang's battle situation required, to vote in key areas (where victory was essential), difficult areas (contested areas), and mixed areas (where defeat was possible).

Political Blacklisting in Military

94CM0403A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 387, 13 Aug 94 p 19

[Article by Yang Helun (2799 0735 0243) titled: "Military Internally Has More Than Two Thousand 'Reactionary Elements'"]

[FBIS Translated Text] The disturbance involving Security Bureau Director Yin Tsong-wen [3009 1350 2429] and Assistant Director Tsai Te-sheng's [5591 1779 0524] recently noted "Chinese Communist spokespersons,"

"who welcome the enemy like they welcome the king's troops," has once again set off a unification independence dispute and suspicions of White terror. But how has the National Security Bureau obtained this information? And do we have to be properly protective against reactionary subversive elements within the country?

It has been disclosed that the NSB eight years ago began to conduct within the three services the "An Hsiang (Calm, Auspicious) Case." Its goal was a three level, four type, seven target monitoring and controlling mission against reactionary elements, and the "An Hsiang Number Nine" was carried out in stages.

The An Hsian Case overall code name within the three services was divided into the Army's "Hua Yu" (Change Rain), the Navy's "Hua Yu" (Change Education), and the Air Force's "Hua Sheng" (Change Life), and all of these were the most important part and focal point of the work of the Political Fourth Security Department. The other four major targets were differentiated with code indicators as follows: BC-A (A type): indicating "traitors, advocates of Taiwan independence, and subversives, three in one elements, possessing a security risk."

BC-B (B type): indicating "extreme separatists, those directly related to political prisoners."

BC-C (C type): indicating "directly related in-laws, etc. of political criminals, or close associates of separatist subversive elements."

BC-D (D type): indicating "people who have taken part in subversive organizations, or expressed sympathetic views, or people who act in accord with these organizations."

BC is an overall codeword for a "person in or linked with the armed forces." Its largest monitoring and controlling targets and mission goals are "advocates of Taiwan independence, Chinese Communists, and subversive elements."

Because this specialty was established in the early period when the party forbade lifting of Taiwan's martial law condition, elements outside the party also were one of the "mission targets," and An Hsiang Number Eight Special Case has still not been revised—the Democratic Progressive Party's code number is 038, the Chinese Social Democratic Party is 059.

The so-called three level, four type, seven targets. The three levels refer to the first level of responsibility (Ministry of Defense), the second level of responsibility (the various service general headquarters) and the third level of responsibility (above headquarters and army level).

The four types refer to BC-A to BC-D. The seven targets then include the three levels added to the four types (up and down) giving the seven goals of carrying out the mission.

It has been disclosed that the statistics for the An Hsiang Number Eight Special Case up until last year indicate that within the three services there are approximately 2100 names listed as monitoring and control targets.

All those entered onto the An Hsiang Special Case "Black-list" must regularly be reported on and monitored and checked by their unit's chief and deputy and the security chief.

They focus and direct checking and tracking at the target's "five axes," and in the five areas of the target's ideological beliefs, national identification, family ethics, moral character and associations, a commentary and critical discussion is done. This is very close to the work of the former guard headquarters "thought police."

If added to this was the contents of the "individual security data form" formerly done in the military (for example, public security data such as factions, previous criminal record, dereliction of duty, party membership, family), this was generally called an "Anhe Special Case."

Nevertheless, to avoid having Legislative and Control Yuan regulation of interrelated data be subject to ridicule, in the past there were "seeking position nightmares" for those in the military filling out individual security data forms. Recently, this has also been simplified to a standard card, and the name has been changed to central "individual data record form," this not again listing abstract ideological examination items. But the security data from the past exists as before, and has not yet been completely destroyed by a political wind from Executive Yuan organs, hence it still has influence.

A portion of the personnel who have undertaken the effort, fear future Legislative and Control Yuan discovery, and are still in private sensitive, and the controversial individual security data may be torn up, destroyed, even excised, with the result that a situation is created where some security records emerge through an "open skylight."

It has also been disclosed that at the end of 1991, Premier Hao Po-tsun secretly ordered the conduction of the "Pan An Special Case." This took the original more than 1800 names of security officials, and expanded it by 233 people, whose major mission was to do "social examination" counter-intelligence work.

The Pan An Special Case involved the Ministry of Defense supervising and guiding the various service headquarters in establishing and organizing security stations. The Army group is the work station (colonel as director), and each region then establishes a work group (lieutenant colonel as director); the Navy also set up security work groups (but the director is a major).

The security group announcement and building principle is that 5-7 people form a cell, and in addition to announcement and building fees, the also can make expenditures on administrative fee lists, forming an operation similar to a black box.

Political Party Politics Face Prospects

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[Article by Cheng Yu-Shih (6774 1342 4258): "Development of Hong Kong's Party Politics"]

[FBIS Translated Excerpt] [passage omitted] Since the 1991 direct election, development of the United Democrats of Hong Kong has been less than promising. On China's policies and election strategies, the rift between the United Democrats and its democratic allies, Meeting Point and the Association for Democracy and People's Livelihood, has widened. On the Chinese Government's stand, the latter two are more ready to compromise, but China's united front policy clearly wants to isolate the United Democrats by deliberately cozying up to Meeting Point and the Association for Democracy. In the spring of 1994, leaders of the latter two factions were appointed Hong Kong affairs and regional affairs consultants and even CPPCC members by the Chinese. Barring the unexpected, the 1995 Legislative Council direct election will adopt a one-seat-one-vote system, and if the democratic political groups cannot successfully coordinate their candidates, it will force a show-down and widen the rift among them.

To foster cooperation in the election, Meeting Point and the United Democrats have finally reached an agreement. In April of this year, the two sides announced a merger to create the Democratic Party. From Meeting Point's perspective, it has good policy-study capability and has a group of fairly well-known candidates, but its grass-roots organization is weak and may find the 1994, 1995 elections very hectic, and if it is soundly defeated, Meeting Point may be rendered a nonentity in Hong Kong's political arena. But after the merger, Meeting Point's candidates will be taken care of by the Democratic Party, and their chances of being elected will greatly improve. From the United Democrats' standpoint, merger of the democratic political groups will naturally enhance the image and build up momentum for the democratic factions. Leaders of the United Democrats can put a even firmer grip on the democratic line. Looking at the election strategy alone, the United Democrats' hard-line against China has won the voters' support, and Meeting Point has no choice but accept this.

Originally, the Association for Democracy had approached Meeting Point on cooperating in the election, but in the process of organizing a democratic party, the Association for Democracy was clearly ignored. People speculate that personnel problem was the main obstacle. It is believed that the Association for Democracy and the Hong Kong Democratic Foundation, a smaller political group, may join the Democratic Party later. Thus, the Hong Kong voters will have a clearer choice in the elections: Those who support the democratic political system and believe in redistribution of income to improve the grass-roots people's lives will naturally vote for the Democratic Party.

Legislative Council members at the organizational level created the CHILIEN [0796 5114] Resource Center immediately after the 1991 direct election and officially formed

the Liberal Party in 1993. They have been actively preparing for the 1994, 1995 elections. The Liberal Party's greatest asset is that it will always be the spokesman for Hong Kong's industries and businesses in the Legislative Council, but it also has many weaknesses. Its worst problem is that people generally feel that the Liberal Party is constantly "changing course": It has changed from being the Hong Kong British government's "fire brigade" with a clear-cut stand into a neutral party between China and Britain. However, according to its declaration of position issued in the party's preparatory phase in early 1993, its stand on political reform is closer to that of the Chinese. Secondly, the Liberal Party lacks party discipline. Rumor has it that Patten privately compares the Liberal Party to a sheet of loose sand. Currently, the Liberal Party still has no grass-roots organization, and its political program tends to focus on industries and businesses and does not appeal to the general public.

The creation of the Hong Kong Progress Alliance in April of this year exactly reflected the weaknesses of the Liberal Party. Because of the Sino-British contention, the Liberal Party's dream of serving as the bridge between China and Britain is shattered. The Liberal Party not only has lost Hong Kong-British trust but has also failed to win the Chinese side's confidence. Currently, it may be the second largest party in the Legislative Council representing the interests of industries and businesses, but it has little influence left in the Executive Council. Furthermore, in the 1995 direct election, prospects for the Liberal Party are gloomy. Many figure that they should consider themselves lucky if they can win two seats. Currently, several members elected by the functional groups have already served more than one term, and in 1995, other groups will enter new candidates to challenge them; many of the interested people have already joined the Hong Kong Progress Alliance's Organizing Committee. After the 1995 Legislative Council election, the Liberal Party may be rendered an ill-disciplined, medium-to-small sized political party.

The pro-Chinese Democratic Alliance for the Betterment of Hong Kong was formed the day after Patten took office. Its motto is "Love China, Love Hong Kong." Its main problem is that it still has not convinced the citizens that it will indeed fight for the interests of the Hong Kong people. Of course, the Democratic Alliance has the traditional left-wing organizations at its base, and in view of the close economic cooperations between Hong Kong and China today, it should have no financial problems.

In the past five years or so, numerous political parties representing different political stands have made their appearances, and they have gained the citizens' recognition through media reports. According to a public opinion poll conducted by University of Hong Kong's Social Sciences Research Center to rate the political groups, the United Democrats had the most support, at about 60 percent, and while the Democratic Alliance had less support, it still had around 45 to 50 percent rate of approval; other political parties rated somewhere in-between. Although the United Democrats, the Liberal Party, and the Democratic Alliance have very different political stands, the amount of support they are getting from the citizens is

about the same. Furthermore, this kind of support is not exclusive (that is, supporting one political party does not exclude support for any other party). Therefore, this so-called degree of support in fact is but a degree of recognition. Moreover, almost all public opinion polls show that the citizens know more about individual council members than the political parties. The same series of public opinion polls conducted by the University of Hong Kong's Social Sciences Research Center showed that the degree of recognition among the 10 best-known Legislative Council members generally was between 70-80 percent, about 20 percent higher than the political parties. [passage omitted]

Today, the biggest obstacle to the political parties' development is the people's political indifference. Individual parties may claim more than a thousand so-called party members, but it is estimated that no party has more than 500 active members. The political parties have limited ability to galvanize the people directly, and they are forced to rely on media reports to win the citizens' sympathy and support. But to gain media attention, they often have to be "shocking and outrageous." Thus the dialogue between the political groups and Hong Kong government officials can hardly be constructive, and it is also difficult to foster mutual trust. Their deliberately-shocking statements rarely win the trust of the intellectuals. No wonder the middle-class and professional's support for the democratic parties has dwindled in recent years.

Because of limited financial resources, most political parties are already badly strained in dealing with everyday congressional politics, and therefore they have little resource left to tackle long-term policy planning. Take the issue of the handing over of power in the transition period for instance. The political parties have little to offer. At this stage, the most they can do is to respond to the Hong Kong government's policy proposals. Yet even for just responding to the government's policy proposals, the political parties are facing the following three types of problems: First, they have to fight for media "exposure," and the conflicts have already been discussed earlier. Second, they have no "think-tank," and their policy-studies are lacking in quality and depth. Third, they lack financial resources and time to consult their own district and grass-roots organizations, and there are already signs of lack of coordination between the central and local organizations.

These problems will probably be difficult to correct anytime soon, and most likely, they will get even worse because of the 1994 and 1995 elections. In order to deal with the elections, the parties will be even more financially strained, and they will have to pay even more attention to publicity. Local organizations must meet the needs of local elections, and they will not always be willing to give the party central organizations their full support. Because the political parties are concentrating on the elections, of course one cannot put too much hope in their long-term policy-planning. On the one hand, the Hong Kong government is kept constantly on the run by the Sino-British diplomatic confrontation, and on the other hand, it also lacks political mandate and the Legislative Council's support to carry out important new policies to improve the

people's livelihood. The citizens will naturally be even more disappointed in politics, and their political indifference will only deepen.

Upon entering the 1990's, few Hong Kong people truly believe that Hong Kong people will be ruling Hong Kong. Their sense of belonging and their confidence are based mainly on China's opening up and reform and on the West's economic slump. China's reform and opening up have brought prosperity to Hong Kong. From media reports and through their own experiences, the Hong Kong people have come to believe that China's reform and opening up are irreversible. Big capitalists believe that the economic contacts between China and Hong Kong are their economic lifeline; the middle-class have bought emigration "insurance" long time ago, and faced with the West's high unemployment rates, they naturally agree that stability and prosperity are of overwhelming importance. The lower-middle class have no choice, but in recent years, at least the overall living standard has improved, and they are sharing the fruits of prosperity. What they expect of the democratic parties is that they would stand up for them. It is estimated that, at this point, few people actually hope or believe that any of the existing political parties will become the ruling party.

The Hong Kong citizens accept the fact that the Chinese factor will play a determining role in Hong Kong politics and are naturally putting not much weight on Hong Kong's party politics, nor are they very interested in political participation. They are hoping that China's reform and opening up will sustain and that the Chinese leaders will gradually become more enlightened and relaxed in their policies toward Hong Kong. But they are also worried about the possible chaos after Deng Xiaoping departs from China's political arena. In this regard, there is little Hong Kong's political parties can do.

Hong Kong's financial groups still believe that engaging in direct dialogue with the Chinese Government and setting up a relationship network with the Chinese leaders and their relatives are the best ways to protect their interests, and therefore they are putting little weight on party politics. China's modernization is dependent on the absorption of foreign capital, and Hong Kong capital accounts for around 60 percent of China's foreign funds. At the same time, the Chinese leaders' united front policy in Hong Kong also emphasizes winning over local entrepreneurs, and therefore not only is it not necessary for the local financial groups to take part in party politics but many feel that such participation can become a political liability.

The recent Sino-British diplomatic contention is also a blow to the development of Hong Kong's party politics. Since negotiations between the two sides have bogged down because of Patten's political reform program, the Chinese is bound to keep their promise to "set up a separate kitchen"—go its own way. The Chinese authorities not only have appointed Hong Kong people to the NPC, CPPCC, and the local people's congresses and people's political consultative conferences. In recent years, they have also appointed some to be Hong Kong affairs consultants and preparation committee members. In the

spring of 1994, they have even appointed a group of regional affairs consultants. These steps to "set up a separate kitchen" of course are an important part of its united-front offensive targeting the Hong Kong British government.

However, the consequence is that not only are Hong Kong's political elites even more divided into pro-China and Pro-British camps, but the development of the representative system of government is dealt another serious blow.

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